Royal Commission on Corporate Concentration

STUDY NO. 5

Canadian Pacific Investments Limited

A Corporate Background Report

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by

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Nesbitt, Thomson & Co. Ltd.

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FOREWORD

In April 1975, the Royal Commission on Corporate Concentration was appointed to "inquire into, report upon, and make recommendations concerning:

(a) the nature and role of major concentrations of corporate power in Canada;

(b) the economic and social implications for the public interest of such concentrations; and

(c) whether safeguards exist or may be required to protect the public interest in the presence of such concentrations".

To gather informed opinion, the Commission invited briefs from interested persons and organizations and held hearings across Canada beginning in November 1975. In addition, the Commission organized a number of research projects relevant to its inquiry. One such project resulted in a series of studies, of which this is one, dealing with the growth of large and diversified corporations in Canada. The series was coordinated by Charles B. Loewen of Loewen, Ondaatje, McCutcheon & Co., Ltd., an investment firm in Toronto.

This report on Canadian Pacific Investments Limited was prepared by Terrance K. Salman who, after several years of experience in portfolio management, joined Nesbitt Thomson and Company Limited in 1973, and now follows Canadian Pacific Investments Limited as a member of the research department of that company.

The Commission is publishing this and other background studies in the public interest. However, the analyses presented and conclusions reached in each study are those of the author, and do not necessarily reflect the views of the Commission or its staff.

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SUMMARY AND INTRODUCTION

In our examination of Canadian Pacific Investments Limited (CPI), we consider the issues relevant to corporate concentration as they relate to the consumer, the general economy, or the company's shareholders.

We have divided the study into two parts. In the first we trace the development of CPI, its relationship to Canadian Pacific Limited (CP Limited), and its financial performance. In the second we examine the major subsidiaries of CPI, their history, method of acquisition, operations, and success as corporations.

Within the study of each subsidiary, one of the major topics is the question of market share. With the exception of Cominco and Pacific Logging, we have focussed on Canadian industry market share by product classification or sales. Our preference is for the Canadian market since the subsidiaries' share of the world or U.S. market is minuscule in most cases. In Cominco's case, however, we have considered the company's world market share, and in Pacific Logging we have focussed on a regional market, the British Columbia coast. We have found that none of the CPI subsidiaries have enough market share to dominate (most have less than 10% of the Canadian market) with the possible exception of Cominco, but since that company essentially operates in the world commodity market it can safely be said that no CPI component has sufficient market share to engage in monopolistic practices.

Secondly, we have attempted to ascertain a general overview of pricing practices to see if CPI or any of its subsidiaries could set prices for their commodities and services contrary to the market in order to enhance profitability. Although time constraints did not allow examination of individual pricing practices for specific products or commodities, we felt we could arrive at meaningful conclusions without such an examination. Since CPI's subsidiaries are essentially resource-oriented with limited market share (in most cases), price leadership and/or predatory pricing did not appear to be factors. If they had been factors then particular companies would have been found more profitable than the industry, and this was rarely the case. The most compelling argument, however, is that the majority of the prices that the subsidiaries receive for products and commodities are set in the international market, which is based on world supply/demand conditions which no one firm dominates, least of all the CPI companies, which are generally small relative to multinationals. This we found to be true in the case of coal, silver, lead, zinc, gold, and potash. In the case of oil and gas, prices are now set by governments.

Thirdly, we have studied the general profitability of each of the CPI components and have compared it where feasible to the profitability of the relevant industry. In most cases, it is evident that the fortunes of each of the cyclical industries in which CPI operates have been determined by macro- and micro-economic factors over which the company has little control. For example, we have found a strong correlation between commodity prices and the earnings of the companies concerned. Another example illustrates a consistent relationship between U.S. housing starts and the profitability of Pacific Logging. Moreover, we find the profitability of most companies observed to be in line with industry averages. In addition, examination of the consolidated returns of CPI has revealed that the company's return on investment has been somewhat less than most industry groups.

Finally, we have evaluated the stock market performance of each subsidiary and pertinent data such as dividends. This examination has illustrated that, in general, the investor who has held their securities over an extended period of time has not been particularly successful.

In conclusion, we find that CPI and its subsidiaries enjoy no special monopolistic powers that would allow them to set prices, dominate the market, restrict output to raise prices, impose barriers to entry, or practise price leadership. On the other hand, the company's program of developing its asset base has improved Canada's ability to compete in world markets and has enhanced Canadian export prospects by assisting or financing new projects or capacity. In addition, this purely Canadian company has become multinational and therefore competes on a wordwide basis for markets, projects and capital.

PART 1

AN OVERVIEW

Canadian Pacific Investments Limited has enjoyed remarkable growth in terms of assets and income. Unlike most conglomerates, CPI has expanded largely through the development of the parent company's holdings in natural resources, real estate, land, hotels, and minority positions in select Canadian equities. Although the company has acquired some developed holdings, such as Cominco, the major part of the asset base was undeveloped at the time of takeover and required sizeable capital expenditures to bring it into the revenue stream. Concurrently, CPI expanded through acquisitions into those areas that would augment its existing holdings by type of asset and geographical distribution. By design, however, CPI has remained totally a Canadian company with international capabilities. Financially, the company has succeeded to a certain extent in developing a fairly consistent earnings stream by developing and acquiring countercyclical elements and improving its overall profitability.

BRIEF HISTORY

Canadian Pacific Investments Limited was incorporated in 1962 as a wholly-owned subsidiary of Canadian Pacific Limited to develop the non-transportation assets of that company. Formed as a holding company along functional lines by classification of business, CPI's prime function has been to monitor the activites of its subsidiaries, to assist them in their development and planning, and to make the necessary management changes to guarantee the realization of their objectives. The final objective is to make the individual subsidiaries the most successful within their industry groups, financially self-sufficient, and publicly supported through equity participation, if and when they reach a sufficient level of maturity. From the outset, it has been CPI's practice to leave the day-to-day operations of the individual components to their respective managements, while providing them with assistance in financing, long-range planning, and key staffing appointments.

Upon formation, CPI acquired from CP Limited all of the capital stock of Canadian Pacific Oil and Gas Limited (CPOG) and Pacific Logging Company Limited. In addition, the company began a practice of building an equity portfolio primarily out of retained earnings and the proceeds from the sale of shares to CP Limited. In 1963, Marathon Realty Company Limited was formed to acquire and develop real estate interests surplus to railway needs, and Canadian Pacific Hotels Limited was formed to manage Canada. During the latter part of the year. CP Limited's majority interest in Cominco Ltd. was obtained by CPI. The purchase of these assets was financed through the sale of CPI shares to

CP Limited. In October, 1965, Canadian Pacific Securities Limited was formed principally as a service company to provide short-term medium-term, and long-term (page 65) financing mainly for the individual CPI subsidiaries.

A major development in the history of CPI occurred in 1967 when the company sold an issue of convertible preferred stock to the public. The $100 million issue, the largest ever financed in Canada, consisted of 5 million 4-3/4% cumulative redeemable convertible voting preferred shares with a par value and price of $20 per share. Each preferred share is convertible into two common shares at any time prior to November 1, 1977. In addition, each preferred share carried with it a warrant to purchase one common share of the company at a price of $12 per share up to November 1, 1971, and at a price of $14 up to November 1, 1974.

Fording Coal Limited was formed late in 1968 to develop a coal property of the company at Elkford, B.C. The new company was to be 60%-owned by CPI and 40%-owned by Cominco Ltd. Also early in the year, the company increased its holdings in Central-Del Rio Oils Limited from 49.97% to 51.6%. In April 1969, CanPac Minerals Limited was formed and incorporated as a 100%-owned subsidiary of CPOG to acquire, explore, and develop mineral properties other than those related to oil and gas operations. It acquired its initial properties from Canadian Pacific Oil and Gas Limited. Later in 1969, the company signed an agreement whereby Central-Del Rio obtained all the outstanding shares of CPI's wholly-owned subsidiary, Canadian Pacific Oil and Gas Limited, in exchange for the issue and allotment of 23,708,000 Central-Del Rio shares. As a result of this takeover, CPI owned 89.3% of Central-Del Rio's outstanding shares. Prior to this transaction, Canadian Pacific Oil and Gas Limited had transferred to CPI its position in Central-Del Rio Oils Limited, CanPac Minerals Limited, Bow River Pipe Lines Limited and Canada Northwest Land Limited, as well as its holdings of developed mineral rights and various other assets not a part of oil and gas development and exploration. The end result of these developments was a merger, effective December 31, 1971, of Central-Del Rio Oils Limited and Canadian Pacific Oil and Gas Limited into a company to be called PanCanadian Pacific Oil and Gas of which CPI now holds 87.15% of the outstanding shares. Also in 1971, CPI gained a majority interest in the Great Lakes Paper Company Limited by increasing its outstanding stock ownership to 51.43% from 49.98% in 1970.

The next major development in CPI's history took place in 1973, when CPI was offered 2,902,113 shares of the Algoma Steel Corporation Limited from a foreign shareholder, Mannesmann A.G. of West Germany. From September of that year until the end of May, 1974, CPI made additional open market purchases of Algoma, bringing its total holdings to 3,399,961 shares. On June 14, 1974, CPI made an offer to the shareholders of Algoma to purchase 2,500,000 shares at a price of $32 a share. Subsequently, the offer was accepted. As a result, CPI has increased its

holdings to a majority position of 50.5%.

In addition to the above developments, CPI acquired CanPac Leasing Limited, a wholly-owned subsidiary of CP Limited, in May, 1973, and CanPac Waste Disposal Systems Limited (renamed CanPac Agri Products Limited) was formed in March, 1974, to contract waste removal and disposal services to municipalities. Chart 1 on the next page shows the extent of CPI's holdings while Chart 2 on page 7 shows the company in relationship to Canadian Pacific Limited and the other subsidiaries.

RELATIONSHIP TO CANADIAN PACIFIC LIMITED

Effective control of CPI is exercised by CP Limited, which owns 82.2% of the outstanding common stock on a fully diluted basis, i.e., if all the outstanding preferred shares held by the company were converted into the common stock. CP Limited is itself a publicly owned corporation, with 76,680 shareholders as of December 31, 1974. On that date, of the total voting ordinary and preference stocks of CP Limited, 64.31% was held in Canada: 17.67% in the United States; 9.47% in the United Kingdom; and 8.55% in other countries. The total outstanding ordinary shares of Canadian Pacific Limited are 71,662,280 and the institutional holdings of CP Limited's ordinary stock, as listed by Standard & Poor's Corporation in September, 1975, amounted to 4,897,000 shares held by 90 institutions. Under the Railway Act Canadian Pacific is not required to name its shareholders. Of the six officers of CPI, three are officers of the parent company; the chairman of CPI is the chairman of CP Limited, and four of the twelve directors of CPI are directors of CP Limited. It is believed that the management and directors of both companies own less than 1% of the outstanding ordinary stock.

Day-to-day operations of CPI and its individual subsidiaries are the responsibility of their respective managements, with CP Limited providing assistance in the planning, financial, corporate development, legal, and administrative areas.

The growing importance of CPI to CP Limited is illustrated in the following statement of CP Limited's consolidated income over the past five years (Table 1 on page 8). In 1970, CPI contributed 49.8% to CP Limited's consolidated income; by the end of 1974, the contribution had reached 61.6%. While the expansion of CPI had been the major element in CP Limited's growth, the transportation subsidiaries, with the exception of CP Bermuda, have been declining in importance due to excessive rate regulation in a period of rapidly rising costs, most notably in the fuel area. CP Rail was operating under a freight rate freeze during most of 1973 and 1974.

CHART 1

Holdings of Canadian Pacific Investments with its Relationship to Canadian Pacific Limited

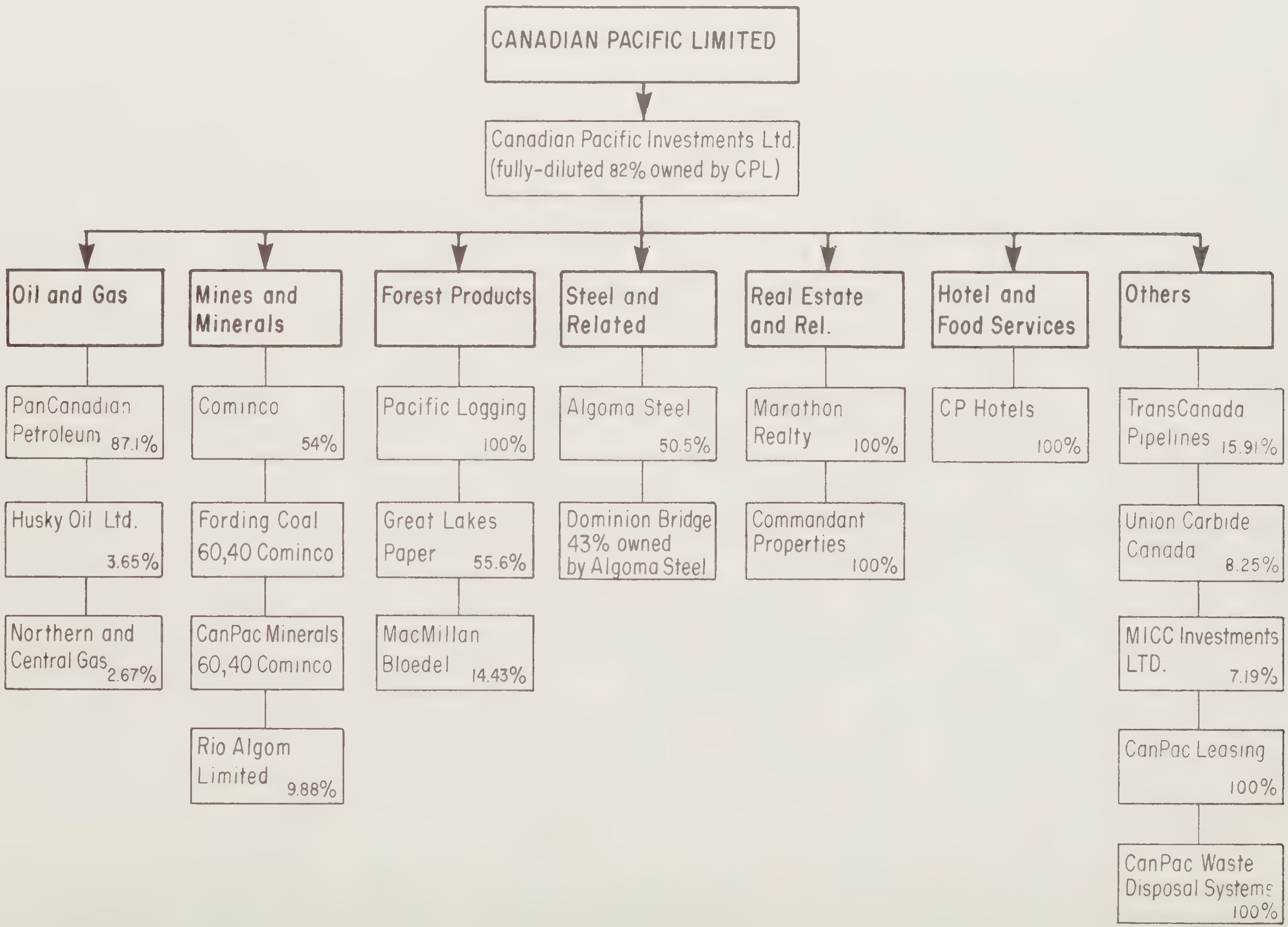
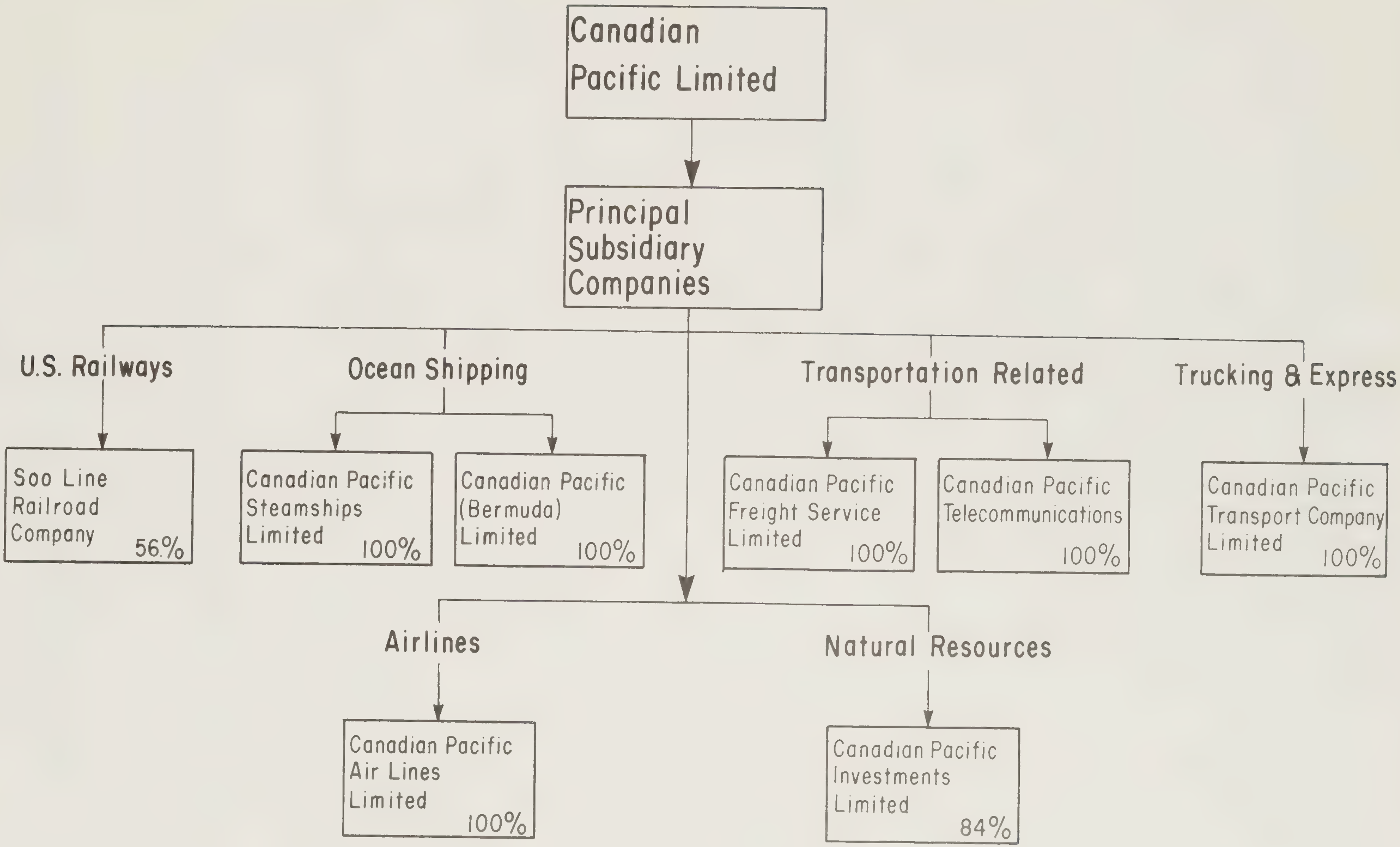


CHART 2



Canadian Pacific Limited
Principal Subsidiary Companies
U.S. Railways
Soo Line Railroad Company 56%
Ocean Shipping
Canadian Pacific Steamships Limited 100%
Canadian Pacific (Bermuda) Limited 100%
Transportation Related
Canadian Pacific Freight Service Limited 100%
Canadian Pacific Telecommunications 100%
Trucking & Express
Canadian Pacific Transport Company Limited 100%
Airlines
Canadian Pacific Air Lines Limited 100%
Natural Resources
Canadian Pacific Investments Limited 84%

Table 1

CANADIAN PACIFIC LTD.

BREAKDOWN OF CONSOLIDATED INCOME, 1970-74
(Thousands of dollars)

	1970	%	1971	%	1972	%	1973	%	1974	%
CP Rail										
Revenues	712,738		661,660		721,139		782,928		948,915	
Expenses	694,257		638,359		686,553		750,365		913,171	
Net Income	18,481	29.2	23,301	32.2	34,586	37.4	32,563	26.6	35,744	19.3
CP Trucks										
Revenues	-		123,419		128,975		129,861		146,873	
Expenses	-		124,150		128,215		132,868		146,977	
Net Income			(731)	(1.0)	760	0.8	(3.007)	(2.5)	(104)	(0.1)
CP Telecommunications										
Revenues	42,809		42,997		45,819		49,397		54,602	
Expenses	40,525		41,754		43,505		48,085		53,876	
Net Income	2,284	3.6	1,243	1.7	2,314	2.5	1,312	1.1	726	0.4
CP Air										
Revenues	151,511		159,552		175,555		190,171		279,470	
Expenses	150,508		157,412		170,394		185,972		277,029	
Net Income	1,003	1.6	2,140	3.0	5,161	5.6	4,199	3.4	2,441	1.3
CP Ships										
Revenues	38,453		58,528		52,252		75,809		116,604	
Expenses	39,530		52,205		48,971		72,695		97,980	
Net Income	(1,077)	(1.7)	6,323	8.7	3,281	3.5	3,114	2.5	18,624	10.0
Miscellaneous										
Net Income	6,951	11.0	6,074	8.4	4,858	5.2	5,233	4.3	1,827	1.0
CP Investments Ltd.										
Revenues	460,971		522,223		620,632		908,309		1,566,382	
Expenses	405,816		478,138		565,277		807,404		1,351,503	
	55,155		44,085		55,355		100,905		214,879	
Minority Interest	23,701		18,122		20,175		37,133		100,646	
Net Income	31,454	49.8	25,963	35.9	35,180	38.0	63,772	52.1	114,233	61.6
Equity in Income of Subsidiary not Consolidated	2,618	4.1	3,119	4.3	4,465	4.8	8,997	7.4	7,785	4.2
Income before extra-ordinary items	61,714		67,432		90,605		116,183		181,276	
Extraordinary items after income taxes	1,507	2.4	4,884	6.8	1,931	2.2	6,179	5.1	4,253	2.3
NET INCOME	63,221		72,316		92,536		122,362		185,529	

Note: Income taxes included with expenses.
Years 1970, 1971, and 1972 have been restated on a fully consolidated basis.

CP Limited
Stock Market Data

While CP Limited's consolidated earnings showed a rising trend between 1970 and 1974, the stock market performance of the company has deteriorated significantly, especially in terms of price/earnings ratios. While most of the decline can be attributable to poor stock market conditions, a certain amount is a function of investor uncertainty with regard to the future of transportation regulation. The relevant stock market data for CP Limited is presented in the market summary in Table 2 and the following Chart 3.

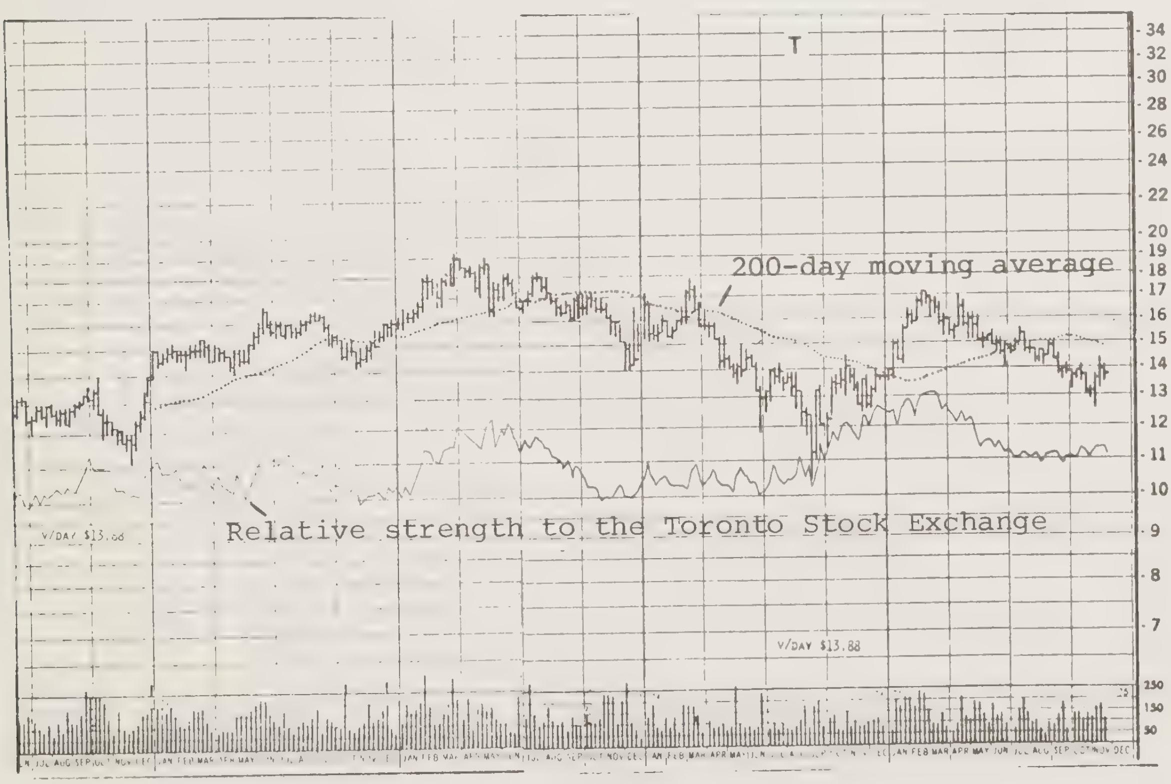
Table 2

CANADIAN PACIFIC LTD.

STOCK MARKET DATA, 1970-75

	1970	1971	1972	1973	1974	1975
Share price						
- high	$14-1/2	$14-3/8	$16-3/4	$19-1/4	$17-3/4	$17-1/8
- low	10	11-1/8	13-7/8	14	10-1/2	12-5/8
Earnings per share	$0.84	$0.96	$1.24	$1.66	$2.54	$2.40
Price/earnings ratio						
- on high	17.3	15.0	13.5	11.6	7.0	7.1
- on low	11.9	11.6	11.2	8.4	4.1	5.3
- on average	14.6	13.2	12.4	10.0	5.6	6.2
Dividend	$0.65	$0.66	$0.70	$0.77	$0.86	$0.845
Yield						
- on high	4.5%	4.6%	4.2%	4.0%	4.8%	5.0%
- on low	6.5	5.9	5.0	5.5	8.2	6.7

CHART 3 - Canadian Pacific Limited



(Courtesy of Independent Survey Company Limited.)

Table 3

CP INVESTMENTS LTD.

BREAKDOWN OF CONSOLIDATED INCOME, 1970-74

	Years ending December 31									
	1970	%	1971	%	1972	%	1973	%	1974	%
	(Thousands of dollars)									
Oil and Gas										
Gross operating revenue	34,928		39,432		47,271		75,374		103,572	
Expenses including income taxes	24,844		27,635		34,727		54,074		84,329	
	10,084		11,797		12,544		21,300		46,243	
Int. of outside shareholders	1,011		1,157		1,535		2,651		5,926	
Net Income	9,073	25.1	10,640	34.6	11,009	27.5	18,649	27.1	40,317	30.9
Mines and Minerals										
Gross operating revenue	314,594		303,082		376,168		565,354		860,802	
Expenses including income taxes	283,227		284,969		351,623		519,750		754,300	
	31,367		18,113		24,545		45,604		106,472	
Int. of outside shareholders	17,920		10,607		13,078		25,428		57,749	
Net Income	13,447	37.1	7,506	24.4	11,467	28.7	20,176	29.3	48,723	37.3
Forest Products										
Sales and operating revenue	27,686		93,061		94,828		143,291		153,598	
Expenses including income taxes	26,003		88,113		89,855		127,001		132,820	
	1,683		4,948		4,973		16,290		18,778	
Int. of outside shareholders	-		1,610		773		3,853		6,709	
Net Income	1,683	4.7	3,338	11.0	4,200	10.5	12,437	18.0	12,069	9.2
Iron and Steel										
Sales and operating revenue	-		-		-		-		253,138	
Expenses including income taxes	-		-		-		-		225,108	
									28,030	
Int. of outside shareholders	-		-		-		-		13,858	
Net Income	-		-		-		-		14,172	10.8

Table 3

CP INVESTMENTS LTD.

BREAKDOWN OF CONSOLIDATED INCOME, 1970-74
(Continued)

	Years ending December 31									
	1970	%	1971	%	1972	%	1973	%	1974	%
	(Thousands of dollars)									
Real Estate and Related Operations										
Gross rentals & other income	17,311		23,266		32,709		35,384		50,694	
Expenses including income taxes	15,716		21,810		29,344		30,672		45,112	
Net Income	1,595	4.4	1,456	4.7	3,365	8.4	4,712	6.8	5,582	4.3
Hotels and Food Services										
Gross operating revenue	47,169		50,736		56,621		67,937		86,129	
Expenses including income taxes	46,292		48,334		53,661		64,254		81,622	
Net Income	877	2.4	2,402	7.8	2,960	7.4	3,683	5.3	4,507	3.5
Finance										
Gross operating revenue	18,185		15,617		14,388		19,797		30,799	
Expenses including income taxes	18,059		15,512		14,276		19,202		30,019	
Net Income	126	0.3	105	0.4	112	0.3	595	0.9	780	0.6
Other Operations										
Gross operating revenue	-		-		-		-		599	
Expenses including income taxes	-		-		-		-		641	
Net Income	-		-		-		-		(42)	(0.1)
Investment Income										
Gross income	10,662		5,997		7,694		10,524		13,077	
Expenses including income taxes	1,239		733		838		1,803		8,548	
Net Income	9,423	26.0	5,264	17.1	6,856	17.2	8,721	12.6	4,529	3.5
Income before Extraordinary Items	36,224		30,731		39,969		68,973		130,637	

Note: Restated on a fully consolidated basis.

FINANCIAL REVIEW

Fundamentally, the growth of Canadian Pacific Investments has been a function of three factors: (1) development of the asset base originally held, (2) expansion of subsidiaries that have long been a part of the CP group, and (3) acquisitions of a major nature. The first element pertains largely to the expansion of the company's real estate, petroleum, coal, timberland, and hotel interests, while the second pertains to the enlarged worldwide operations of Cominco and the expansion of PanCanadian. The third factor refers to the acquisition of The Great Lakes Paper Company and Algoma Steel, along with their consolidation. These factors, along with a buoyant commodity market, have provided CPI with compounded annual growth of 38% in consolidated income before extraordinary items over the past five years. As in most resource-oriented companies, CPI's consolidated net profit margins have fluctuated somewhat: net margins fell from a high of 11.6% in 1970 to 7.9% in 1971 before continuing an upward trend of 9.4%, 11.1%, and 13.7%, respectively from 1972 through 1974.

Income Statement

Since its formation in 1962, CPI has changed its earnings mix significantly. From a very high dependency on Cominco and PanCanadian it has become a broadly based holding company with interests in all the major natural resource industries in Canada as well as the iron and steel industries. In addition, the company has altered its geographical base from western Canada to include more representation in the east.

In 1964, approximately 84.0% of CPI's consolidated net income was derived from Cominco and PanCanadian, while at the end of 1974, an exceptional year for those companies, they provided 66.5%. During the two years prior to 1974, their contribution averaged 56.7% of consolidated earnings. As presented in Table 3 on pages 10 and 11, the consolidated net income of CPI over the past five years has improved significantly. Moreover, through acquisitions and the development of its non-revenue producing asset base, the company has introduced countercyclical elements and somewhat protected its consolidated earnings and dividend stream. That is to say, cycles for steel are somewhat different from cycles for lead and zinc or hotels.

Profitability

It is commonly assumed that the largest corporations are the most profitable. Yet, a comparison of returns to CP Limited and CPI, two of Canada's largest companies in terms of assets, with industry averages suggests otherwise (Table 4). In our analysis, we have used the two most widely used methods of determining profitability: return on average invested capital and return on average common equity. We have used CP Limited as well in order

Table 4

CANADIAN PACIFIC LTD. AND CP INVESTMENTS LTD.

PERFORMANCE COMPARED TO VARIOUS INDUSTRIES, 1970-74

Return on Average Invested Capital
(Per cent)

	1970	1971	1972	1973	1974	5-year Average
Canadian Pacific Limited*	3.6	4.3	4.4	6.4	9.2	5.6
Canadian Pacific Investments Limited	5.8	5.9	7.2	9.0	13.5	8.3
Industry						
Beverage	9.7	9.7	9.9	9.2	11.8	10.1
Chemical	4.5	5.5	5.4	7.9	12.6	7.2
Communication	12.9	12.8	15.2	15.5	14.2	14.1
Construction & Material	4.6	5.8	6.8	8.2	9.7	7.0
Food Processing	8.1	8.4	9.0	11.2	11.9	9.7
General Manufacturing	5.9	6.9	8.5	10.1	16.8	9.6
Industrial Mines	11.2	5.6	6.0	12.3	12.0	9.4
Merchandising	7.2	7.8	8.5	8.4	9.1	8.2
Oil	7.1	7.9	9.1	11.7	12.7	9.7
Paper	3.4	2.2	3.8	8.6	11.6	5.7
Pipelines	7.8	8.1	9.2	8.4	7.9	8.3
Steel	7.4	6.1	6.6	8.7	10.4	7.8
Utility	5.6	5.7	5.7	5.5	5.7	5.6

Return on Average Shareholders' Equity
(Per cent)

	1970	1971	1972	1973	1974	5-year Average
Canadian Pacific Limited*	3.9	4.6	5.0	6.7	10.1	6.1
Canadian Pacific Investments Limited	5.8	4.9	6.3	9.9	17.1	8.8
Industry						
Beverage	12.6	13.0	13.7	12.1	13.5	12.9
Chemical	5.1	6.7	6.1	11.2	19.5	9.7
Communication	19.4	23.7	26.1	24.5	21.1	22.9
Construction & Material	6.0	8.5	10.7	13.6	15.0	10.7
Food Processing	11.1	11.5	12.5	15.7	16.5	13.5
General Manufacturing	5.8	5.9	8.9	14.3	22.7	11.5
Industrial Mines	14.8	8.3	8.3	19.6	19.1	14.0
Merchandising	9.3	10.8	11.1	10.1	12.4	10.7
Oil	9.0	10.2	11.9	15.4	17.5	12.8
Paper	4.3	2.6	5.6	15.6	21.6	10.0
Pipelines	14.5	14.6	14.8	13.9	11.4	13.8
Steel	11.0	8.9	9.5	12.9	16.7	11.8
Utility	10.4	11.3	11.8	11.1	12.5	11.4

* - For years 1970-74 consolidated data not available and figures are for parent company only.

Source: Financial Post; Annual Reports.

to demonstrate how necessary it was for the parent company to develop all of its assets to the fullest extent.

As is apparent in the comparisons, CP Limited and CPI have been less profitable than the industry samples. CP Limited, because of its regulated transportation subsidiaries, has been less profitable than any Canadian industry group in terms of return on equity in every year, with the exception of the paper industry between the years 1970 and 1972 and the chemical industry in 1972. Based on a five-year average, return to CP Limited ranks considerably below that of every major industry group in Canada. The corporation has not done much better in terms of return on invested capital. In each of the five years, CP Limited's return has been lower than any industry group in Canada except utility, chemical, and paper companies. Using a five-year average, CP Limited's 5.6% return is the same as that recorded by the utility industry, the lowest in the country.

CPI has fared somewhat better, although it still does not rank very high. On a five-year average basis, only chemicals, construction, paper, and the utility industries have achieved a lower return on invested capital. In comparing returns on common equity, CPI has achieved less of a return than most groups throughout the period. On a five-year average basis, CPI's performance has been considerable lower than that of all the industry classifications.

The necessity of CP Limited developing and expanding its CPI concept becomes apparent when CPI is separated from CP Limited. This exercise reveals that in general the transportation components of the company offer the lowest rates of return not only on invested capital, but on common equity as well (Table 5).

Table 5

CANADIAN PACIFIC LTD. EXCLUDING CO. INVESTMENTS LTD.

MEASURES OF PERFORMANCE, 1970-74
(Per cent)

	1970	1971	1972	1973	1974	5-year Average
Return on invested capital	3.6	4.9	6.2	4.9	4.9	4.9
Return on common equity	4.2	5.7	7.6	6.0	6.2	5.9

In short, the growth and expansion of CPI was essential in order for CP Limited to remain financially sound. The company's

policy of effectively employing all its available assets has enabled the parent company to remain a viable Canadian company.

Capitalization

The consolidated balance sheet of CPI has changed significantly over the past five years from principally an underleveraged situation in 1970 to a leveraged position by the end of 1974. During this period, shareholders' equity decreased from 86.5% to 34.8% of total capitalization (Table 6) while long-term debt increased from 15.4% to 31.3%. In addition, minority interest, which amounted to only 1.4% of capitalization in 1970, reached 18.6% on December 31, 1974. The major reasons for these significant changes were the full consolidation of CPI by the end of 1973, the acquisition of two major subsidiaries, the Great Lakes Paper Company and Algoma Steel, the increased debt load of the major subsidiaries due to expansion plans, and increased debt guarantees by CPI. In addition, in 1972 and prior years, only wholly-owned subsidiaries and PanCanadian Petroleum were consolidated.

In examining CPI's source and application of funds over the last five years (Table 7), we find that significant changes have taken place most notably as a result of the full consolidation from 1972 onward. Cominco and The Great Lakes Paper Company were consolidated in 1973 and restated to reflect consolidation in 1972, while Algoma Steel was consolidated in 1974 and restated to reflect consolidation in 1973.

Substantially higher funds from operations, especially during 1972-74, were a function of consolidations, growth in earnings, and cash flow, primarily as a result of rising worldwide commodity demand with escalating prices, and an enlarged revenue-producing base. Minority interest in income of subsidiaries also advanced from approximately \$15.7 million in 1972 to \$84.2 million in 1974 with the purchase and consolidation of Algoma and the consolidation of The Great Lakes Paper Company and Cominco, all of which have a minority interest in excess of 40% of the outstanding common equity.

Long-term debt issued during the period rose dramatically as developed and undeveloped subsidiaries enlarged their leverage positions. The issuance of new debts rose from \$118.7 million in 1971 to \$229.0 million in 1974.

These consolidated funds in general were applied to additions to property, which advanced from a low of \$151.4 million in 1971 to a high of \$313.2 million in 1974, and to investments in subsidiaries acquired and consolidated. Additions to property in 1974 include all the additions made by all the subsidiaries and Algoma Steel from the date of consolidation. The overall growth from 1972 onward is a function of significant additions to property brought about largely through the expansion activities of

Table 6

CP INVESTMENTS LTD.

ELEMENTS OF CAPITALIZATION, 1970-74

(Thousands of dollars)

	Year Ended December 31									
	1970	%	1971	%	1972*	%	1973	%	1974	%
Working capital	(81,375)	(10.7)	(48,757)	(5.8)	105,161	6.8	67,955	4.1	79,868	3.4
Deferred liabilities	7,451	1.0	6,685	0.9	6,333	0.4	6,650	0.5	21,483	1.0
Long-term debt	117,026	15.4	150,713	17.8	416,375	27.0	462,582	28.2	731,239	31.3
Minority interest	10,496	1.4	14,395	1.7	214,222	13.9	228,044	13.9	435,101	18.6
Deferred income taxes	48,852	6.4	56,037	6.6	116,527	7.6	162,849	10.0	254,275	10.9
Shareholders' equity:										
Capital stock**										
Preferred shares	99,177	13.0	98,933	11.7	98,786	6.4	60,620	3.7	27,577	1.2
Common shares	322,501	42.3	322,831	38.1	322,982	21.4	361,430	22.0	405,167	17.3
Paid in surplus	81,800	10.7	81,800	9.7	81,800	5.3	81,800	5.0	81,800	3.5
Retained income	156,246	20.5	163,601	19.3	179,435	11.6	206,001	12.6	298,915	12.8
Shareholders' equity as a % of total capitalization		86.5		78.8		44.7		43.3		34.8
Total	762,174	100.0	846,238	100.0	1,541,621	100.0	1,637,931	100.0	2,335,425	100.0

* - Restated for full consolidation policy of CPI.

** - Common shares outstanding 58,700,000; preferred shares 1,170,000 outstanding estimated in 1974.

Table 7

CP INVESTMENTS LTD.

SOURCE AND APPLICATION OF FUNDS, 1970-74
(Thousands of dollars)

		1970*		1971*		1972*		1973		1974
Source of Funds										
Income before extraordinary items		36,224		30,731		39,969		68,973		103,637
Add/(Deduct)										
Depreciation, deletion & amortization		48,570		57,947		62,763		86,464		110,944
Deferred income taxes		7,904		8,729		15,904		27,244		33,951
Equity in net earnings of associated company in excess of dividends received		-		-		-		-		(4,352)
Dividends from associated company		-		-		-		-		1,379
Outside shareholders' interest in income of subsidiaries		18,931		13,354		15,386		31,932		84,242
Funds from operations		111,629		110,761		134,022		214,613		356,801
Sales of Investments		670		8,248		11,587		23,083		6,177
Capital stock issued										
Common	108		330		151		38,448		43,737	
Less: Conversion of preferred shares	103	5	244	86	147	4	38,166	282	33,043	10,694
Issuance of long-term debt		88,421		118,745		100,470		147,618		228,995
Proceeds from disposal of properties		6,142		9,927		7,380		11,388		3,182
Working Capital of subsidiaries acquired and consolidated		-		-		-		5,012		69,942
Issue of shares by subsidiary to acquire property		-		9,158		-		-		-
Decrease in investment portfolio		-		-		-		-		-
		206,867		283,680		253,463		401,996		675,791
Application of Funds										
Additions to properties		118,472		151,407		122,516		134,231		313,172
Additions to investment portfolio		7,088		(4,576)		13,928		65,693		9,995
Additions to lease receivables		-		-		-		16,017		29,218
Investment in subs. acquired & cons.		-		11,056		-		38,092		96,353
Reduction in long-term debt		16,499		-		29,184		129,158		97,925
Dividends declared		28,419		28,423		28,423		32,324		37,723
Dividends paid outside shareholder of subsidiaries		24,643		11,309		13,630		16,916		39,774
Sundries (net)		6,924		13,772		14,152		1,597		5,110
Increase in working capital		(3,03[illegible])		59,609		38,597		(37,206)		11,913
Additions to other investments		7,862		12,680		(6,967)		5,174		34,608
Investments in subs. cos. not cons.		-		-		-		-		-
		206,867		283,680		253,463		401,996		675,791

* - Restated for full consolidation policy of CPI.

Cominco, Algoma, CP Hotels, Great Lakes Paper, and Marathon Realty. Additions to investments in subsidiaries acquired and consolidated in 1974 include the purchase of Algoma Steel (mainly) and Rothesay Concentrates. A new use-of-funds category, addition to lease receivables, commenced in 1973 with the formation and development of CanPac Leasing.

ROLE IN FINANCING SUBSIDIARIES

Along with its corporate practice of developing previously undeveloped assets, enhancing the revenue-producing base of its subsidiaries, and acquiring interests in companies that fit into its resource-oriented base, CPI's role in the financing of the growth of its subsidiaries is vital.

In general, the acquisition of major companies such as The Great Lakes Paper Company and the Algoma Steel Corporation Limited is financed from corporate cash flow, the issuance of long-term debt through debentures, and on a term loan basis. In recent years, debt has played an increasing role due to the magnitude of the acquisitions. The debt incurred of CPI as of September 30, 1975 (Table 8) was used primarily for the acquisition of Algoma Steel. This debt carries no guarantees from CP Limited.

Table 8

CP INVESTMENTS LTD. CORPORATE DEBT

As at September 30, 1975

	($000)
Promissory Note due 1975	14,511
5 3/4% Income Debentures* due 1976	16,000
6% Income Debentures due 1976-1979	15,800
6 1/4% Income Debentures due 1976	5,000
6 1/2% Income Debentures due 1977	13,000
7 1/4% Income Debentures due 1975-1979	47,900
7 1/2% Income Debentures due 1975-1979	13,200
Bank Loan due 1978 at prime plus 1/2%	5,000
	130,411

* - CPI relies heavily on income debentures because it has little taxable income; that received from subsidiaries is in the form of dividends.

Although several of CPI's subsidiaries such as Cominco and PanCanadian are principally self-financing due to their size and

asset base, other subsidiaries require either guarantees of their debt or longer-term financing in the form of debentures or loans from CP Securities, the company's financing arm. The debt of CP Securities in turn is guaranteed by CPI. As of December 31, 1974, CP Securities had $135 million in debt outstanding. (See Table 9.)

Table 9

CP SECURITIES LTD.
(As at December 31, 1974)

	($000)
7% Bank Loan due 1979	25,000
$9\frac{1}{2}$% Sinking Fund Debentures due 1990	25,000
9-3/8% Sinking Fund Debentures due 1990	40,000
$8\frac{1}{4}$% Sinking Fund Debentures due 1993	15,000
$10\frac{1}{2}$% Debentures due 1984	30,000
	135,000

In this regard, it is important to note that while these funds provide vital financing to developing subsidiaries that have limited access to capital markets, they are also used to assist developed subsidiaries that cannot raise required finances because of market conditions. A case in point is The Great Lakes Paper Company which could not have embarked on its recent expansion program without a $40 million demand loan from CP Securities.

Another form of assistance, direct financial guarantees, makes it possible for certain smaller subsidiaries to raise funds in order to pursue, develop and expand their activities. As of September 30, 1975, we estimate them to be as in Table 10.

Table 10

CP SECURITIES LTD.*

DIRECT FINANCIAL GUARANTEES TO SUBSIDIARIES

	($000)
CanPac Leasing Export-Import Bank of the United States	2,000
Fording Coal Bank Loans due 1975-1978 (represent CPI's 60% interest)	31,500
Fording Coal Export-Import Bank of the United States	2,500
Rothesay Concentrates	4,000
	40,000

* - Guaranteed by CPI.

STOCK MARKET DATA

Despite the obvious success of past management decisions and the ensuing expansion of earnings and dividends, the price of the common stock has remained essentially unchanged since it first began trading publicly. Relevant statistics are included in Table 11 and Chart 4.

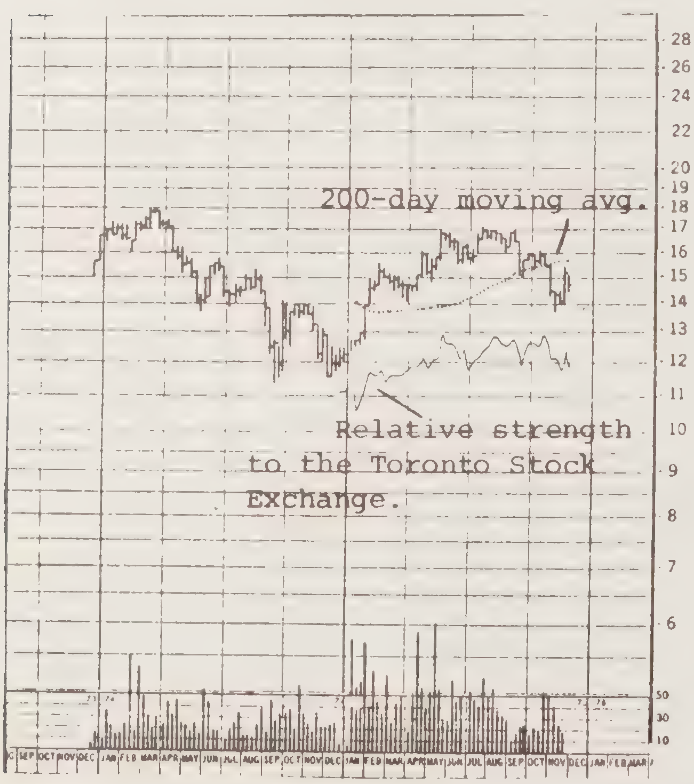
Table 11

CP INVESTMENTS LTD.

STOCK MARKET DATA, 1970-75

	1970	1971	1972	1973	1974	1975
Share price						
- high				$16-3/4	$18	$17-1/8
- low				15	11-3/8	12-3/8
Earnings per share	$0.66	$0.58	$0.74	$1.40	$2.29	$2.41
Price/earnings ratio						
- on high				12.0	7.9	7.1
- on low				10.7	5.0	5.1
- on average				11.4	6.5	6.1
Dividend	$0.4733	$0.4733	$0.4733	$0.53	$0.62	$0.62
Yield						
- on low				3.5%	5.4%	5.0%
- on high				3.2	3.4	3.6

CHART 4 - Canadian Pacific Investments Limited



(Courtesy of Independent Survey Company Limited.)

PART 2

PROFILES OF THE SUBSIDIARIES

The 13 main subsidiaries of CP Investments Ltd. involve their parent company in industries as diverse as logging and hotel management. Operationally, however, they manage their own affairs as separate units. This part of the report therefore examines each one in turn, highlighting facets of their businesses that may be of interest to the Royal Commission. All the reports begin with short histories of the companies involved.

PANCANADIAN PETROLEUM LIMITED

Canadian Pacific Oil and Gas Limited ("CPOG"), which later merged with Central-Del Rio Limited to form PanCanadian Petroleum Limited, was incorporated in 1958 as a subsidiary of CP Limited. Initially, all of CP Limited's mineral rights, located mainly in the Prairie Provinces, were transferred to CPOG, whose principal objectives were to manage and develop the parent company's oil and gas interests and other mineral activities, those being primarily coal. Upon the incorporation of CPI, all the shares of CPOG were transferred to CPI in exchange for CPI shares. In addition to mineral rights in the Prairie Provinces, CPOG received approximately 2 million acres of mineral rights (not oil and gas) on Vancouver Island, 5,625 shares of Canada Northwest Land Limited, and a 79.5% interest in Lethbridge Collieries Limited, a coal operation in Alberta that was later discontinued.

In November, 1961, CPOG entered into an agreement with Great Canadian Oil Sands Limited whereby it acquired an option to purchase up to 51% of that company's common equity. In 1962, CPOG announced an agreement with Sun Oil Company Limited and Canadian Oil Companies Limited, whereby the latter two companies were to acquire a 33-1/3% interest in that option. The options were exercised and CPOG eventually held a total of 124,241 shares of Great Canadian Oil Sands. Since CPOG had only a limited claim on the development of Great Canadian Oil Sands, primarily because it was not a party to an important lease, it liquidated its interest in the would-be venture.

The company acquired, in 1962, a 50% interest in Huron Pipe Lines Limited, a company with permits to operate oil and gas pipelines between Edmonton and Red Deer and Calgary and Lethbridge in Alberta. These pipelines were never constructed.

In 1964, CPOG and Great Northern Oil Company joined forces to form Bow River Pipe Lines for the purpose of constructing a 267-mile pipeline from Taber to Hardisty in Alberta. In 1969, CPOG transferred its 50% interest to CPI, which in turn sold its interest to Great Northern Oil Company in 1973.

In 1965, CPOG acquired a 40% interest in Ardley Coal Limited, the other 60% being owned by Dynamic Power Corporation Limited, to develop substantial proven reserves of coal near Red Deer, Alberta. This interest was transferred to CanPac Minerals in 1969. CanPac Minerals proceeded to acquire Dynamic Power Corporation in 1971 and consequently obtained full ownership of Ardley Coal Limited.

One of the earliest major exploration activities of CPOG outside of the interests previously transferred from CP Limited occurred in 1965, when the company, through Canadian Pacific Oil and Gas of Canada Limited, acquired a 25% interest in the exploration of 800,000 acres in the North Sea area. The program was not successful, and CPOG, along with its partners, Home Oil (50%) and Alminex (25%), allowed their options to expire.

The first major acquisition of CPOG took place in the latter part of 1964, when the company purchased 500,000 shares of Central-Del Rio Oils at $8.70 per share. Since CPI already had approximately 18.1% of Central-Del Rio's stock in its investment portfolio, the combined ownership amounted to 43.5%. Further open market purchases resulted in a combined interest of 51.6%. In 1969, an agreement was reached whereby Central-Del Rio acquired all of the outstanding shares of CPOG in exchange for the allotment and issue of 23,708,000 shares of Central-Del Rio, which were subsequently transferred to CPI. Accordingly, CPI's effective interest in Central-Del Rio amounted to 89.3%. The transition was fully completed on December 31, 1971, when Central-Del Rio became PanCanadian Petroleum Limited and CPOG was merged with it. Prior to the transaction, however, certain non-petroleum mineral assets and rights of CPOG had been transferred to a newly formed subsidiary of CPI, CanPac Minerals.

Drilling

Table 12 sets forth PanCanadian Petroleum's overall domestic drilling record relative to that of the industry over the past five years.

PanCanadian Petroleum's exploratory drilling activity has picked up considerably in the last two years when compared with the previous three-year period. Moreover, while industry exploratory drilling activity in 1974 was essentially unchanged from the 1972 level, PanCanadian Petroleum increased its number of exploratory wells drilled by 73%. Of the total exploratory wells drilled, the company's share increased from approximately 2.8% in 1972 to 6.6% in 1973 and 4.8% in 1974. On the development well side, the company has been considerably more active than the industry, particularly since 1972. PanCanadian Petroleum's development well drilling as a percentage of the total rose steadily from 1.7% in 1970 to 7.5% in 1973 and 14.3% in 1974.

Table 12

PANCANADIAN PETROLEUM LTD.

DOMESTIC DRILLING ACTIVITY, 1970-74

(Gross Figures)

	1970	1971	1972	1973	1974
Exploratory Wells Drilled					
By Total Canadian Industry:					
Oil	131	154	117	200	108
Gas	262	294	415	567	530
Dry/Abandoned	1,142	1,054	1,195	1,375	1,092
Total	1,535	1,502	1,727	2,142	1,730
Success Ratio	25.6	42.5	44.5	35.8	36.9
By PanCanadian Petroleum*:					
Oil	4	1	5	6	4
Gas	16	13	18	92	44
Dry/Abandoned	35	30	25	43	35
Total	55	44	48	141	83
% of Canadian Total	3.6	3.0	2.8	6.6	4.8
Success Ratio	36.4	31.1	47.9	69.5	57.8
Development Wells Drilled					
By Total Canadian Industry:					
Oil	695	529	755	812	631
Gas	538	598	785	1,124	1,432
Dry/Abandoned	388	387	365	490	400
Total	1,621	1,514	1,905	2,426	2,463
By PanCanadian Petroleum*:					
Oil	12	18	16	25	14
Gas	9	3	23	140	327
Dry/Abandoned	6	17	9	13	8
Facility	-	-	2	3	3
Total	27	38	50	181	352
% of Canadian Total	1.7	2.5	2.7	7.5	14.3

* - Canadian working interests only.

Source: PanCanadian Petroleum Limited.

The company's success ratio in exploratory drilling has been above the industry average in every year except 1971. The industry's success ratio has declined from the high levels attained in 1971-72, and was marginally below the five-year average in 1974. While PanCanadian Petroleum's success ratio declined from the peak 1973 level in 1974, it remained well above the five-year average.

Production

PanCanadian Petroleum today is one of the largest Canadian-owned oil and gas producers. Table 13 illustrates the company's net average daily production over the past five years.

Table 13

PANCANADIAN PETROLEUM LTD.

NET AVERAGE DAILY PRODUCTION, 1970-74

	1970	1971	1972	1973	1974
Net crude oil (bbls.)	24,394	25,827	31,096	40,574	36,408
Net natural gas liquids (bbls.)	2,192	2,703	2,899	10,012	14,844
Net natural gas production (mcf)	161,775	179,320	199,522	210,210	226,285
Net sulphur production (long tons)	224	253	267	263	269

The proven developed, and probable reserves of the company as of December 31, in 1973 and 1974 were as in Table 14.

Table 14

PANCANADIAN PETROLEUM'S RESERVES, 1973 AND 1974

	Dec. 31, 1973	Dec. 31, 1974
Oil and natural gas liquids (bbls.)	206,755,149	194,493,029
Natural gas (mmcf)	2,224,901	2,298,026
Sulphur (long tons)	3,784,602	4,076,248

Domestic Market Share

PanCanadian Petroleum's market share in terms of oil and gas has remained essentially unchanged over the past five years. In addition, the company's share of total Canadian oil and gas

production is very small. In the liquids area, however, PanCanadian Petroleum increased its share of the market from 1% in 1970 to 4.73% by the end of 1974 (Table 15). This increase can be attributed to the additional productive capacity provided by the Empress extraction plant.

Table 15

PANCANADIAN'S SHARE OF DOMESTIC

OIL & GAS PRODUCTION, 1970-74

	1970	1971	1972	1973	1974
Industry Production					
Oil (Mb/y)*	460,184	491,877	560,825	654,486	613,751
Gas (Bcf/y)	2,379	2,598	3,005	3,217	3,130
Liquids (Mb/y)	78,620	86,562	109,829	117,617	114,479
PanCanadian Petroleum's Production					
Oil (Mb/y)	8,904	9,425	11,358	14,782	13,216
As a % of industry	1.93	1.92	2.03	2.26	2.15
Gas (Mmcf/y)	59,048	65,270	70,945	75,011	80,928
As a % of industry	2.48	2.51	2.36	2.33	2.59
Liquids (Mb/y)	800	986	1,054	3,647	5,412
As a % of industry	1.02	1.14	0.96	3.10	4.73

* - Includes synthetic production - majority controlled by Great Canadian Oil Sands.

Financial Statistics

Table 16 on the following page sets out capitalization and profitability figures from 1970 to 1974.

Table 16

PANCANADIAN PETROLEUM LTD.

FINANCIAL SUMMARY, 1970-74
(Thousands of dollars)

Capitalization

	1970	%	1971	%	1972	%	1973	%	1974	%
Long-term debt	22,765	14	32,706	17	71,979	30	93,468	33	89,946	29
Deferred income taxes	54,856	34	62,689	33	71,086	29	81,367	29	89,317	28
Shareholder's equity	84,119	52	96,026	50	98,701	41	109,337	38	134,283	43
	161,740		191,421		241,766		284,172		313,546	
Capital expenditures	22,403		24,851		30,338		32,014		49,316	

Profitability

	1970	1971	1972	1973	1974
Gross income	34,928	39,432	47,271	75,374	130,572
Cash flow	27,143	30,598	34,965	49,872	74,557
Net income	10,835	12,197	12,544	21,300	46,243
Return on average equity	13.0%	13.5%	12.9%	20.7%	38.3%

Stock Market Data

In Table 17, relevant market data for PanCanadian is presented for the past five years.

Table 17

PANCANADIAN PETROLEUM LTD.

STOCK MARKET DATA, 1970-75

	1970	1971	1972	1973	1974	1975
Share price						
- on high	$15-3/4	$17-3/4	$17-3/8	$18-1/2	$14-3/4	$17-1/4
- on low	7.70	12	13	11-3/8	7-1/8	7-5/8
Earnings per share	$0.35	$0.39	$0.40	$0.68	$1.48	$2.20
Price/earnings ratio						
- on high	45.0	45.5	43.5	27.2	9.5	7.3
- on low	24.0	30.8	34.5	16.7	4.8	3.5
- on average	33.5	38.2	38.0	22.0	7.1	5.7
Dividend	$0.29	$0.31	$0.32	$0.41	$0.62	$0.86
Yield						
- on high	1.8%	1.7%	1.8%	2.2%	4.4%	5.0%
- on low	3.8	2.6	2.5	3.6	8.7	11.3

Summary

PanCanadian has evolved from being a manager of mineral rights of Canadian Pacific Railway to one of the largest independent Canadian oil and gas producers. In so doing, the company has developed, explored, and acquired oil and gas properties to meet the growing demand for these commodities in Canada and the United States. While the company's success has been somewhat greater than the industry's, it enjoys no special advantage in the marketplace. In addition, the number of people employed by PanCanadian has increased from 383 in 1970 to 532 at the end of 1974.

PACIFIC LOGGING COMPANY LIMITED

Pacific Logging Company Limited was incorporated in 1941 as a wholly-owned subsidiary of Canadian Pacific Railway. Originally, Pacific Logging acted as a licensing agent for the logging rights of way owned by the Esquimalt and Nanaimo Railway ("E&N") which was itself a subsidiary of the Canadian Pacific Railway.

With the development of the CPI concept in 1962, the company was reorganized as a separate profit center and transferred to CPI.

Upon completion of the reorganization, the company had acquired from E&N a major portion of its unsold timberland on Vancouver Island. By the end of 1969, Pacific Logging had acquired approximately 290,000 acres of timberland, of which a small portion was purchased from other sources such as the B.C. Government. In respect of its purchase of the E&N timberlands, however, the company was required to pay a 25% tax over a period of years to the B.C. Government. In order to develop its operational capabilities, Pacific Logging commenced a program of acquisitions and several capital projects in 1962, the most important of which are outlined below.

- <u>1962-1972</u> - The company purchased a 49.9% interest in Sooke Forest Products Limited, a B.C. company that is involved in lumber-related activities on Vancouver Island.
- <u>1963-1971</u> - The company purchased a 100% interest in T.W. MacKenzie Logging Limited, a private company involved in logging operations on Vancouver Island very near Pacific Logging's lands. Through this purchase, completed in 1971, Pacific Logging increased its interest in Ladysmith Forest Products Limited from 10% to 20%. Ladysmith operates a lumbermill on Vancouver Island on land leased from Pacific Logging.
- <u>1963</u> - Pacific Logging purchased the assets of the Passmore Lumber Company Limited in the Slocan Valley of Southeastern B.C. This logging and sawmill operation used timber from Crown land and was sold in 1970, when the parent company was consolidating its expanding holdings.

- 1968 - The Canadian operations of Georgia-Pacific International Corporation, Inc., were acquired. The principal assets were 20,000 acres of fee lands and 29,000 acres of timber licences in British Columbia.

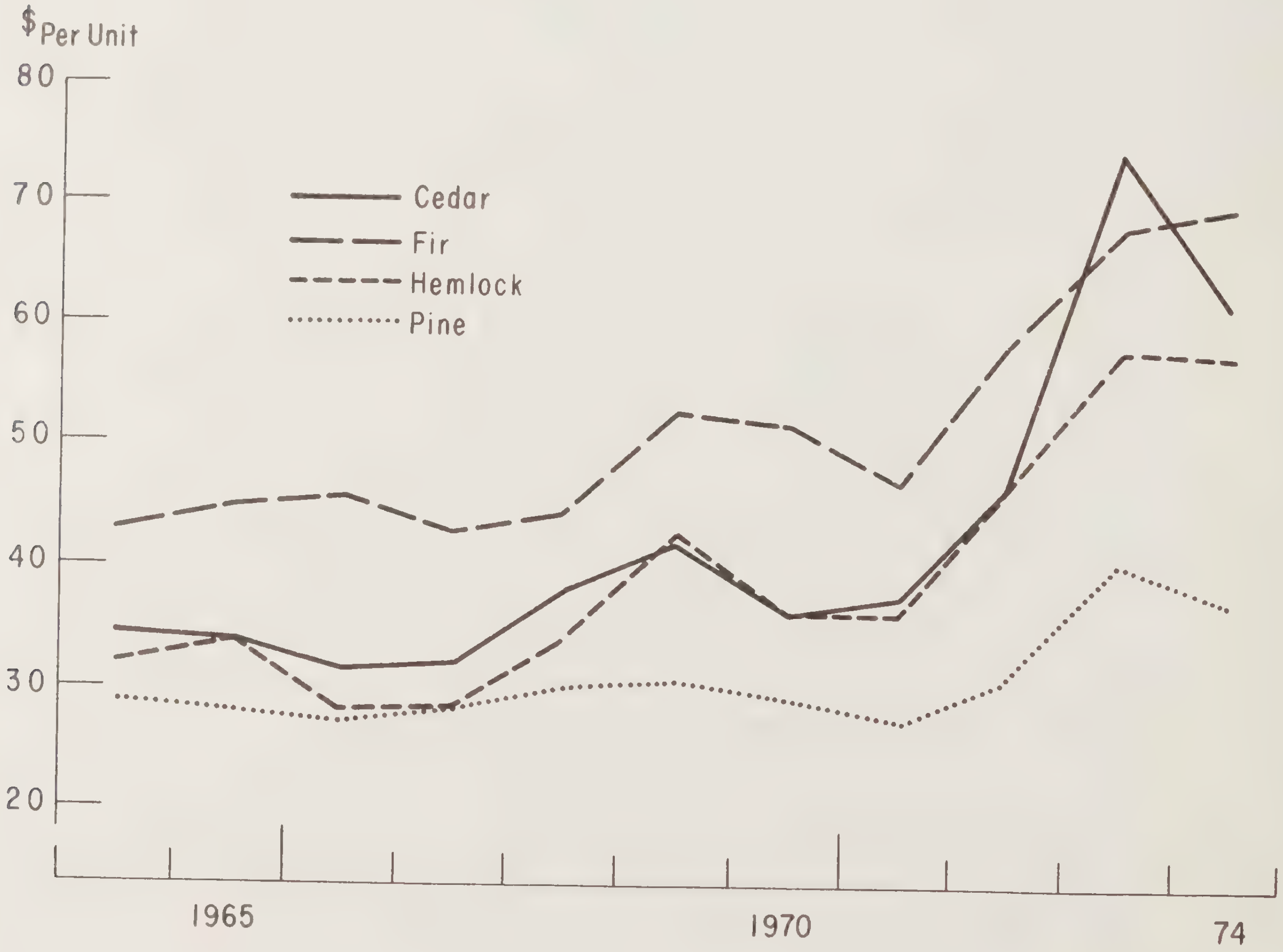
In addition to the above acquisitions, the company owns a 20% interest in Cipa Lumber Co. Ltd., a sawmill operation at Nanaimo, B.C., and an 80% interest in Saltair Lumber Company Limited, a sawmill operation near Ladysmith. B.C.

Pricing

The average price paid for logs and lumber fluctuates significantly, not only from year to year but monthly and weekly as well. To illustrate this condition, we have included a graph of monthly average log prices over the 1964-74 period for select types of logs (Chart 5). A more detailed table, including the actual prices recorded, can be found in Appendix A.

CHART 5

Select Average Annual Log Prices



In general, the prices paid for logs in British Columbia are dependent upon demand for lumber in the principal markets that the industry serves: the United States, Canada, and the U.K. Demand, in turn, is a function largely of housing starts in those countries, with the U.S.A. being the most important market. When U.S. housing starts declined from 1.5 million units in 1965 to 1.3 million units in 1967, total average log prices declined from $36.20 per unit to $32.97. From 1967 to 1969, when housing starts rose to 1.5 million units, average log prices rose to $45.04 per unit. From 1969 to 1972, when U.S. housing starts increased to 2.4 million units, average log prices rose to $49.32 per unit. The only major inconsistency occurred between 1972 and 1974, when U.S. housing starts declined to 1.3 million units and average prices rose to $75.72. During that period, increases were granted when U.S. price controls were lifted and there was exceptionally strong demand from other markets, principally Japan.

In short, B.C. log prices are a function of worldwide demand, and no Canadian company has significant enough market share to practice monopolistic pricing. This was clearly evident during the era of U.S. price controls, when average prices for B.C. logs exported to the U.S.A. could not be raised in proportion to the increase in housing starts. Accordingly, Pacific Logging's performance is largely a function of external demand components.

Performance

Since Pacific Logging is a private company incorporated in British Columbia, the only published information available can be found in the various CPI annual reports and prospectuses. However, an indication of the company's performance since 1964 is provided in Table 18.

Table 18

PACIFIC LOGGING CO. LTD.

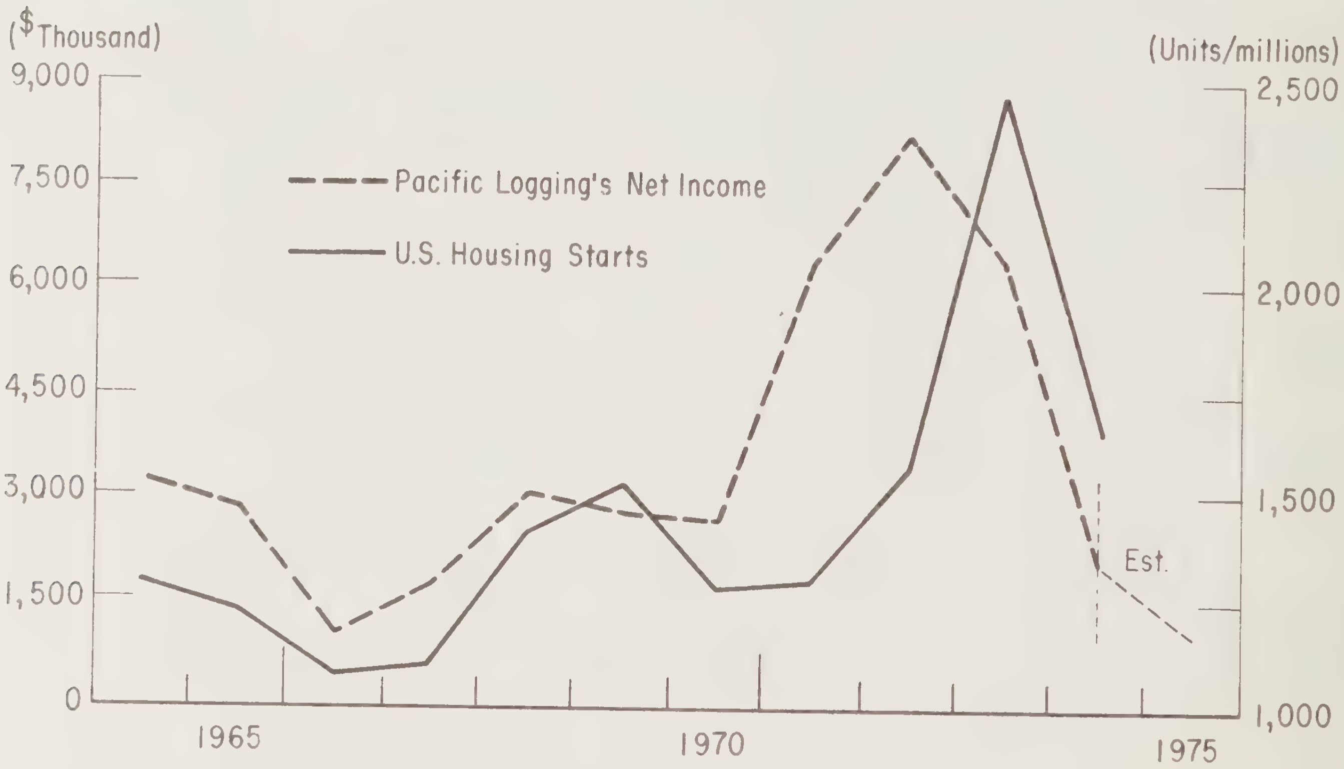
FINANCIAL SUMMARY, 1964-74

	Revenue ($000)	Net Income ($000)	Net Profit Margins (Per cent)
1964	10,187	1,720	16.9
1965	10,846	1,446	13.3
1966	10,250	499	4.8
1967	11,452	625	5.4
1968	22,138	2,551	11.5
1969	27,417	3,128	11.4
1970	27,695	1,590	5.7
1971	21,601	1,711	7.9
1972	25,232	3,365	13.3
1973	50,357	8,451	16.7
1974	38,972	3,840	9.9

In general, the performance of Pacific Logging has been closely related to the demand for lumber. This relationship is expressed clearly in Chart 6, which shows Pacific Logging's net income and U.S. housing starts. The distortion in the 1970-72 period is primarily a function of U.S. price controls.

CHART 6

Relationship Between U.S. Housing Starts & the Net Income of Pacific Logging



Regional Market Share

Pacific Logging's share of the British Columbia logging market is relatively small. In the immediate market in which the company operates, i.e., the B.C. Coast, its share of shipments has never risen above 4.7%. The major change in market share did not occur until 1968, when positive results were realized from the company's reorganization program. The market share of Pacific Logging, however, cannot be evaluated solely in terms of the B.C. Coast market because the company competes in the entire B.C. market (where its logging output must be sold). As is evident in Table 19, its share of that market is very small and in no one year did it increase above 3.6%, with the average over the 10-year period reviewed being 3.4%.

Table 19

PACIFIC LOGGING CO. LTD.

VALUE OF SHIPMENTS, 1964-73

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
					($ Millions)					
B.C. Coastal Logging Industry*	380.7	475.4	470.6	500.3	554.3	605.4	637.6	654.1	715.4	1079.3
Pacific Logging	10.2	10.8	10.3	11.5	22.1	27.4	27.7	21.6	25.2	50.5
					(Per cent)					
Pacific Logging's Share of B.C. Coastal Market	2.7	2.3	2.2	2.3	4.0	4.5	4.3	3.3	3.5	4.7
					($ Millions)					
Total B.C. Logging Industry	457.5	563.9	565.2	601.6	676.1	764.0	883.9	926.0	1004.4	1588.0
					(Per cent)					
Pacific Logging's Share of Total B.C. Market	2.2	1.9	1.8	1.9	3.3	3.6	3.1	2.3	2.5	3.2

* - Includes pulpwood logs.

Summary

Over the period reviewed, Pacific Logging has evolved from a small logging operation to an integrated and competitive logging and sawmill company in the B.C. logging and lumber industry. Through its capital expenditures, acquisitions, and increase in the number of people employed, Pacific Logging has also contributed to the development of the area. The number of people employed by Pacific Logging and subsidiary companies at year end 1974 was 250 with another 500 employed by affiliated companies and another 500 by company contractors. In addition, the company's economic performance has been consistent with the industry's and is largely dependent on external demand factors for its overall level of profitability.

CANADIAN PACIFIC HOTELS LIMITED

Canadian Pacific Hotels Limited, ("CP Hotels"), wholly-owned by CPI, is one of Canada's largest hotel chains, with 17 hotels in eight provinces as well as in Jerusalem and Hamburg. The history of CP Hotels dates back to 1886, when Canadian Pacific Railway built four small hotels at scenic points in the Canadian

Rockies, which were served by the company's transcontinental trains. As railway passenger service increased, the company continued to add hotels to accommodate travellers, and by the turn of the century these hotels were considered to be among the finest in North America. In 1963, as part of CPI's diversification program, it was decided that a separate hotel subsidiary should be formed to utilize the company's long experience in the field as well as to benefit from the growth potential of the market. Initially, CP Hotels undertook only the management of hotels owned primarily by the Canadian Pacific Railway; however, in 1965, the company began to acquire certain hotels from the railroad parent. Today, CP Hotels acts as an independent subsidiary that owns, leases, and manages hotels and provides restaurant and catering services.

The hotel industry in Canada is highly competitive with no one or two chains dominating the market. The industry is dominated principally by American hotel chains such as Western International and Hilton Hotels. CP Hotels is believed to be the second largest Canadian-owned chain with approximately 6,429 rooms across the country. Hotel rates vary with location, service, and age of structure. CP hotels are generally oriented towards the luxury class and have substantial concentration in the convention market because of their centralized locations in many urban centers.

Table 20 includes a list of the hotels directly owned, leased, and managed by CP Hotels.

Performance

The growth of CP Hotels during the past five years has been remarkable, with overall revenues increasing 16.7% per year between 1970 and 1974. During the corresponding period, the company increased its number of rooms substantially and entered in-flight kitchen and catering services. Earnings during the period rose from $876,907 in 1970 to $5.1 million in 1973 only to decline to $4.4 million in 1974. A breakdown of the company's performance is highlighted in Table 21 on page 34.

In general the performance of CP Hotels is comparable to that of other hotel chains in the U.S. and Canada. As is apparent in Table 22 on page 34, the company's operating margins, net margins, and returns on average equity compare favorably with Hilton Hotel Corporation Incorporated and Commonwealth Holiday Inns of Canada Limited.

Summary

Since its transfer from CP Limited to CPI, CP Hotels, acting as a separate profit center with its own autonomous management, has developed into a very competitive hotel concern with international capabilities. The new management has renovated its older hotels, entered into the managed hotel and flight kitchen

Table 20

CP HOTELS LTD.

OWNED, LEASED AND MANAGED OPERATIONS, 1974

Owned Operations	Original Structure Completed	Year Acquired	Number of Rooms	Occupancy 1972-1974 (Per cent)
Royal York Hotel, Toronto	1929	1965	1,418	70.9
Empress Hotel, Victoria	1908	1965	416	63.8
Le Chateau Champlain, Montreal	1966	1966	614	87.7
Le Chateau Frontenac, Quebec City	1926	1966	619	69.9
Hotel Saskatchewan, Regina	1927	1966	252	57.3
Hotel Palliser, Calgary	-	1974	415	55.3
Le Chateau Montebello, Montebello	-	1974	198	60.7
Chateau Halifax, Halifax	-	1974	306	62.0
	Lease			
Leased Operations	Commenced	Expires	Number of Rooms	Occupancy 1972-1974
Le Baron Motor Hotel, Sherbrooke	1964	1980	126	70.0
Le Baron Motor Hotel, Trois Rivières	1970	1995	101	59.6
Red Oak Inn, Brandon	1972	1997	97	85.2
	Agreement			
Managed Operations Canada	Commenced	Expires	Number of Rooms	Occupancy 1972-1974
Chateau Lacombe, Edmonton	1966	1988	328	78.2
*Banff Springs Hotel, Banff National Park	1968	**		
- Summer			527	88.7
- Winter			527	49.9
*Chateau Lake Louise, Banff National Park	1968	**		
- Summer			357	85.7
- Winter (opened Dec. 2/74)			250	-
Red Oak Inn, Thunder Bay	1974	1989	183	-
Northstar Inn, Winnipeg	1971	1991	272	73.8
Algonquin Hotel, St. Andrews, N.B. (summer only)	1973	1974	200	44.1

* - Owned by CP Limited.
** - Terminates upon 30-day notice by either party.

Table 21

CP HOTELS LTD.

FINANCIAL SUMMARY, 1970-74
(Thousands of dollars)

	1970	1971	1972	1973	1974
Operating revenue	46,149	50,442	55,987	66,198	84,273
Management fees & other revenue	286	294	634	1,310	1,799
	46,435	50,736	56,621	67,508	86,072
Earnings before taxes & extra-ordinary items	1,843	4,872	5,480	7,417	8,609
Pre-tax margin	4.0%	9.6%	9.7%	11.0%	10.0%
Net income before extraordinary items	877	2,402	2,960	5,091	4,449
Net margin	1.9%	4.7%	5.2%	7.5%	5.2%

Table 22

COMPARISON OF CP HOTELS WITH

OTHER HOTEL CHAINS, 1973 AND 1974
(Per cent)

	CP Hotels Limited		Commonwealth Holiday Inns of Canada Limited		Hilton Hotel Corporation Incorporated	
	1973	1974	1973	1974	1973	1974
Pre-tax operating margin	11.0	10.0	6.7	5.6	8.7	7.3
Net margin	7.5	5.2	3.1	2.2	4.7	4.6
Return on average equity	14.6	11.8	14.7	11.7	9.1	8.7

businesses, and built several new hotels in select locations across Canada.

Moreover, it can be said that the company, through its aggressive plans, has introduced a degree of competition in the hotel business while providing additional jobs and required hotel facilities. While in 1969 CP Hotels employed 3,000 people, at the end of May, 1975, this number had increased to approximately 8,000. The significant growth achieved by the company over the years in question has evolved primarily as a result of management decisions and marketing expertise, with the company enjoying no special advantage in the marketplace.

COMINCO LTD.

Cominco Ltd., which had been a part of CP Limited since the early 1900s, was transferred to CPI in 1963. Cominco today is one of the world's largest lead and zinc producers. (A graphical description of Cominco's holdings appears in Appendix G). It also produces significant amounts of silver, gold, fertilizer, potash, and coal, in addition to its marketing, exploration, and manufacturing operations. Since 1964, Cominco has been the largest contributor to CPI's consolidated net income in every year except 1971. At the end of 1974, 35.7% of CPI's consolidated income was derived from Cominco. In short, the dividend income received from Cominco made possible to a large extent the expansion of CPI's asset base. Since its transfer to CPI, Cominco has become more active in exploration, development of existing properties, acquisitions, marketing, and other activities such as manufacturing.

Development and Acquisition (Mining Properties)

In terms of developing and acquiring mining properties, Cominco's major accomplishments over the past ten years are listed below.

- A urea complex in Calgary with an eventual capacity of 90,000 tons per annum was developed in 1960.
- Pine Point Mines Limited was brought into production in 1964 after many years of pondering its economic feasibility.
- A 200,000 ton per annum ammonium nitrate plant at Beatrice, Nebraska, was completed in 1966.
- The Magmont lead and zinc property in Magmont, Missouri, (50%-owned) was brought on stream in 1968. This property has known reserves of 11 million tons.
- The Vade Potash Mines, 14 miles southwest of Saskatoon, commenced operations in March, 1969, and is estimated by Cominco to have 100 years of reserves at full production.

- A 40% interest in Fording Coal Limited, along with a management contract, was acquired in 1969 from CPI, which still owns a 60% interest.
- Cominco purchased in 1971 a 55% interest in Aberfoyle Limited, an Australian company involved in the mining of tin, tungsten, and gold.
- The company purchased in 1972 a 40% interest along with a management contract in CanPac Minerals Limited, which owns over 1.6 billion tons of proven coal reserves. (This company is 60%-owned by CPI.)
- In 1973, Cominco put into production its 62%-owned Black Angel lead and zinc property in Greenland, which has lead and zinc ore reserves of 4.4 million tons.

In addition to these developments, Cominco has made a series of acquisitions designed to increase its worldwide smelting capabilities and prospects in related manufacturing fields. Of these, the most important are listed below.

- A 40% interest in a zinc smelter and refinery in India was purchased in 1963 through Cominco Binani Limited.
- A 45% interest in Mitsubishi Cominco Smelting Company Limited, a company that receives all of its concentrate requirements from Pine Point Mines Limited, was obtained in 1965.
- In 1964, a 100% interest in Western Canada Steel was acquired for 306,510 Cominco shares. The company and its subsidiaries manufacture and market steel products in Western Canada and owns a 51% interest in the Hawaiian Western Steel Company Limited of Honolulu. Their combined annual capacity is 310,000 tons.
- In 1965, a 50% interest was acquired in Canada Metal Company Limited, a concern that manufactures base metals and alloys at plant centers across Canada.
- In 1966, a 50% interest in Mazak Limited, a British company that manufactures and markets zinc alloys for dyecasting in the U.K. was acquired.

Exploration

In recent years Cominco has become more active in exploration activities, the most important of which are:

- a 9% interest in Panarctic Oils Ltd., a consortium exploration company owned by the Canadian government and private interests, to explore for oil and gas in the Canadian Arctic;
- a 75% interest in the Polaris property (Arvik Mines), a high grade lead and zinc property in the Canadian

Arctic that has estimated ore reserves of 25 million tons;

- a 81% position in Valley Copper Mines Limited, which is estimated to contain 800 million tons of copper ore located in B.C.;
- a 47% interest in the Rubiales lead and zinc property in Spain, where development plans are continuing and production is expected to commence in 1977 (this property has proven ore reserves of 11 million tons); and
- a 17% interest of the outstanding common shares of Tara Exploration and Development Company Limited, a company that has large zinc reserves in Ireland.

In addition to these exploration activities, which will provide the company with a backlog of properties, a \$145-\$150 million ammonia and urea plant east of Calgary, Alberta, is expected to commence operations in 1976. The annual rated capacity is 400,000 tons of ammonia and 480,000 tons of urea.

In general, the financing of Cominco's exploration and development activities is carried out by the company itself, without any guarantees, loans or lines of credit from CPI or its financing subsidiary, CP Securities. Acquisitions, development projects, and exploration functions are financed by internal and external sources, with Cominco generally taking up a portion equal to its equity interest.

Market Share

In our examination of CPI's subsidiaries, Cominco's market share of principal products produced appears to be significantly larger than most of the companies in the group. Only those commodities where Cominco has a significant market share have been considered. Moreover, we have examined its share of both the Canadian and world markets. Cominco operates in a world commodity market and the bulk of its output is consumed outside Canada. As indicated in Table 23, the market share of Cominco in its principal commodity groups has changed significantly over the 10 years under review.

With regard to the Canadian smelted lead market, Cominco had a 100% share until 1966. It is important to note, however, that on a mine production basis, Cominco's share of the Canadian market is considerably less. As an example, it was 48.7% at the end of 1973. Its world share during the 10-year period has declined from about 6% in the mid-sixties to 4.5% in the early seventies.

In the smelted zinc group, which is the largest commodity, the company's share of the Canadian market has been on a decreasing

Table 23

COMINCO LIMITED

MARKET SHARE OF PRINCIPAL PRODUCTS, 1964-74

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974[2]
					(Thousand tons)						
Smelter Production of Lead[1]											
Cominco	151.4	186.5	184.9	187.6	199.3	195.8	219.4	191.2	202.9	202.0	129.0
Canada	151.4	186.5	184.9	190.3	202.1	187.1	204.6	185.6	208.6	206.0	139.0
%	100.0	100.0	100.0	98.6	98.7	100.0	100.0	100.0	97.3	98.1	92.8
World	2818	2911	3026	3182	3247	3553	3628	3501	3726	3600	4681
%	5.4	6.4	6.1	5.9	6.1	5.5	6.0	5.5	5.4	5.6	2.8
Smelter Production of Zinc											
Cominco	199.0	213.0	221.9	202.0	210.0	225.1	221.6	211.2	242.6	248.0	162
Canada	377.7	358.5	382.6	405.4	426.9	446.4	460.7	410.0	525.4	550.0	482.0E
%	58.9	59.4	58.0	49.8	49.2	48.3	48.1	51.5	46.2	45.1	33.6
World	4071	4353	4498	4548	5101	5482	5321	5175	5615	5550	6523
%	4.9	4.9	4.9	4.4	4.1	4.1	4.2	4.1	4.3	4.5	2.5
Silver					(Million ounces)						
Cominco	7.4	6.4	6.6	5.2	6.9	5.7	6.0	5.6	6.9	9.6	6.6
Canada	29.9	32.3	32.8	37.2	45.8	43.5	44.3	46.0	47.0	51.0	-
%	24.7	19.8	20.1	14.0	15.1	13.1	13.5	12.2	14.7	18.8	-
World	248.5	257.4	266.7	258.2	275.3	295.7	301.0	288.9	291.4	299.4	-
%	2.5	2.5	2.5	2.0	2.5	1.9	2.0	1.9	2.4	3.2	-
Potash					(Million short tons[3])						
Cominco[4]	-	-	-	-	-	0.08		0	0.05	0.39	0.38
Canada		1.6	2.0	2.6	3.1	3.8	3.4	3.9	4.3	4.7	-
%						2.1	2.9	-	1.2	8.2	-
World		15.1	16.0	16.9	17.3	18.5	19.5	20.9	21.9	23.3	
%						insignificant					

Notes: 1 - Cominco's output is greater than Canada's in some years due to overseas production.
2 - Strike year.
3 - Short ton K_2O equivalent. Statistics are on a calendar year.
4 - Main potash mine closed down for majority of the period.

Sources: Cominco Annual Reports; Commodity Year-Book; U.S. Bureau of Mines; Financial Post.

trend since the mid-sixties. Cominco's share, which amounted to between 58% and 60% of the Canadian market between the years 1964-66, declined to a level of 42.2% by 1973. The company's share of world production also decreased from 4.9% in the three-year period 1964-66 to an average of 4.2% between 1971 and 1973.

The company's silver production relative to the Canadian market decreased substantially from a high of 24.7% in 1964 to a low of 12.2% in 1971, before rebounding to 15.4% in 1972 and 19.9% in 1973. On the world market, the company remained fairly close to its 10-year average of 2.3% with the exception of 1973, where it improved to 3.1%; however, this is an insufficient period to establish a trend.

In the case of potash production, the company has not been a consistent enough producer over a reasonable period of time to establish any trend. The company's share of the market in the year 1973 is probably most representative, and we estimate that Cominco's share through its Vade, Saskatchewan, mine will be about 5% of the Canadian market without operational difficulties.

Pricing

Lead, zinc, and silver are international commodities and prices are established in the international market place. To our knowledge, there is no consistent price leader and no company has more than 10% of the world market. Lead and zinc prices in North America are established by producers and reflect worldwide market conditions for these metals. Handy & Harman in New York is the recognized silver pricing authority in North America. Outside North America, lead and silver prices are established by the London Metal Exchange (LME) and zinc is priced on a producer basis.

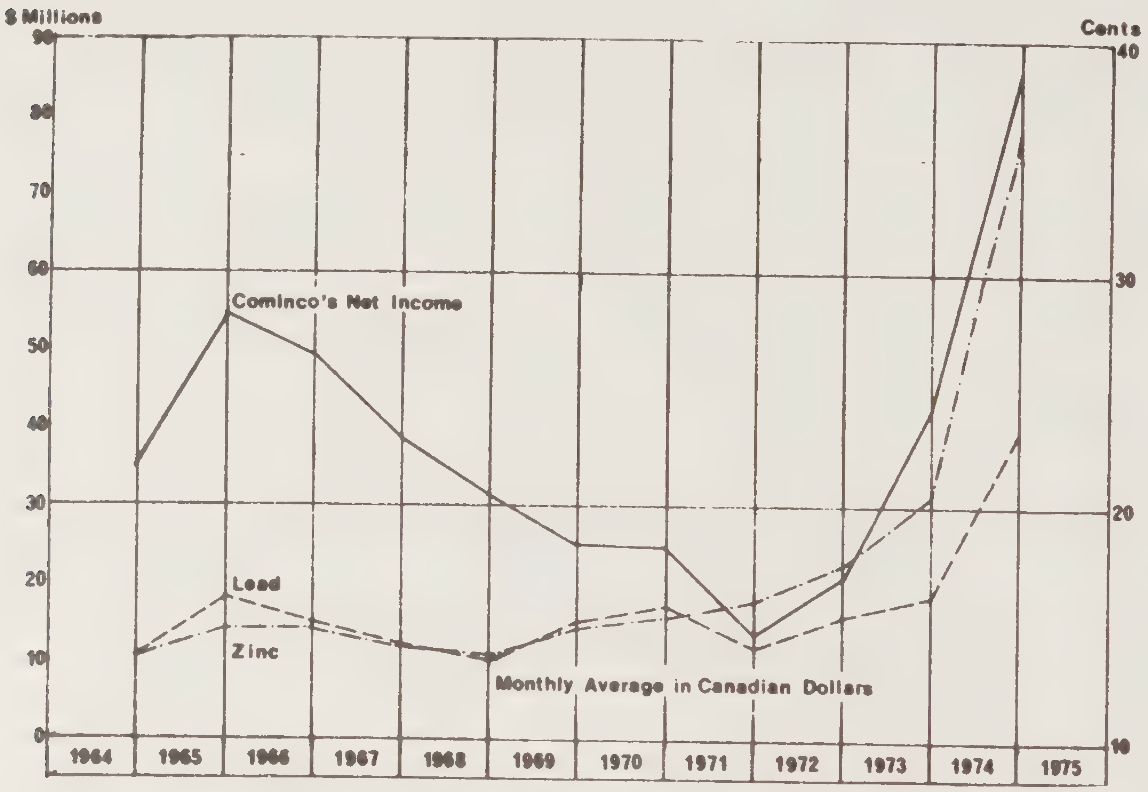
In short, Cominco's prices for lead, zinc and silver are determined by worldwide supply and demand. To the extent of the company's dependency on these principal commodities, earnings performance is very strongly correlated to the price trends as demonstrated in Chart 7 on page 40. Additional pricing data may be found in Appendix B, page 75.

Performance

In Table 24 on page 40 we have measured Cominco's performance over the past five years by comparing it to a representative sample of industrial mines (those included in the Toronto Stock Exchange Index). While the comparison is not totally consistent because there are certain non-mining activities of Cominco, it appears to be the best comparison available. In average terms over the past five years, Cominco's net margins and returns on average common equity and invested capital have been somewhat less than the broad industry.

CHART 7

Relationship Between Cominco's Net Income and Lead and Zinc Prices



Note - There are no Canadian tariffs on lead and zinc exports. In the U.S., however, there is an import duty of 0.7 cents per pound (i.e. $14.00 U.S. per short ton) on unwrought non-alloyed zinc and a 19% ad valorem duty on alloyed products. In the case of lead the duty on unwrought non-alloyed as well as alloyed products is 1.062 cents per pound (i.e. $21.24 U.S. per short ton) on the lead content of the product.

Table 24

COMINCO LTD.

MEASURES OF PERFORMANCE, 1970-74
(Per cent)

	1970	1971	1972	1973	1974	5-year Average
Return on invested capital:						
Industry	11.2	5.6	6.0	12.3	12.0	9.4
Cominco	6.7	4.5	4.8	8.7	15.6	8.1
Net margins:						
Industry	16.6	9.3	7.6	14.4	11.8	11.9
Cominco	8.3	4.7	6.4	9.6	12.9	8.4
Return on average equity:						
Industry	14.8	8.3	8.3	19.6	19.1	14.0
Cominco	8.2	4.4	6.6	12.7	23.7	11.1

Source: Financial Post, Cominco Annual Reports.

While margins for both the industry and Cominco have fluctuated widely with a change in the business cycle, the general trend has been a reduction in margins and returns in the 1971-72 period from the previous year and an improvement in 1973-74, when there was a worldwide commodity boom. In the past year, Cominco has become more profitable than the industry because of the contribution of its offshore subsidiaries and the development of its non-mining classified business. A more detailed breakdown of the company's performance with selected financial data is presented below.

Financial Summary

Table 25 sets out profitability figures for Cominco from 1970 to 1974, and other financial data that show growth over that period.

Table 25

COMINCO LTD.

FINANCIAL SUMMARY, 1970-74
(Millions of dollars)

	1970	1971	1972	1973	1974
Profitability					
Revenues	371.6	371.6	375.1	517.8	792.7
Earnings before taxes	41.9	25.0	39.0	95.0	195.4
Pre-tax margin	11.3%	6.7%	10.4%	18.2%	24.6%
Income taxes	11.2	7.5	15.0	45.5	93.2
Net earnings before minority int. & equity interest	30.7	17.5	24.0	49.5	102.2
Deduct minority interest	6.7	4.4	3.4	5.6	18.2
Earnings after equity interest of associated companies	24.0	13.0	20.5	43.9	84.1
Equity in net earnings of associated companies	0.9	0.5	0.6	(1.1)	2.2
Net earnings before extraordinary items	24.9	13.5	21.1	42.8	86.3
Selected Financial Data					
Capital expenditures:					
Cominco Limited	31.0	30.0	44.0	57.0	59.0
Associated companies	21.0	48.0	20.0	4.0	14.0
Long-term debt	89.6	110.5	118.2	146.5	138.1
As a % of capitalization	21.1%	22.5%	22.9%	25.5%	22.4%
Shareholders' equity	305.4	311.1	325.2	346.9	382.2
As a % of capitalization	72.2%	63.3%	63.0%	59.5%	61.9%
Total assets	498.4	554.4	570.8	673.2	765.7

Stock Market Data

In Table 26, market data to time of writing is presented.

Table 26

COMINCO LTD.

STOCK MARKET DATA, 1970-75

	1970	1971	1972	1973	1974	1975 (to Nov.)
Share price						
- high	$35-5/8	$25-3/8	$30-3/4	$39-1/4	$35-1/2	$35-1/4
- low	19-1/8	17-7/8	22-5/8	24-7/8	22	24-3/4
Earnings per share	$1.50	$1.00	$1.19	$2.52	$5.08	$3.90
P/E ratio						
- on high	23.8	25.4	25.8	15.6	7.0	9.0
- on low	12.8	17.9	19.0	9.9	4.3	6.3
- on average	18.3	21.7	22.4	12.8	6.0	7.7
Dividend	$1.40	$0.70	$0.80	$1.25	$3.00	$1.50
Yield						
- on high	3.9%	2.8%	2.6%	3.2%	8.5%	4.3
- on low	7.3	3.9	3.5	5.1	13.6	6.1

Summary

Cominco has become one of Canada's largest mining companies, with multinational capabilities. The company's program of resource development has contributed materially to Canada's export activities and ability to compete in offshore markets. In addition, the company and its parent, CPI, have assisted in the financing of jointly owned ventures engaged in new development and exploration in Canada and abroad. In spite of its size and growth, the company possesses no monopolistic powers in terms of markets served and prices charged. Moreover, Cominco has added significantly to employment opportunities in various sectors across Canada and its consolidated number of employees has increased from 8,356 in 1963, the year of its transfer to CPI, to 12,381 by the end of 1974.

MARATHON REALTY COMPANY LIMITED

Marathon Realty Company Limited ("Marathon") was incorporated in 1963 as a wholly-owned subsidiary of CPI. Today, the company is a full-fledged real estate company with interests from coast to coast. Originally, 845,695 acres of land were transferred to Marathon (at cost), along with exclusive rights to purchase over 1,000 acres of urban centre land if they became surplus to railroad needs prior to January 1, 1975. We estimate that Marathon's land

holdings as of March, 1974, included approximately 550,000 acres of agricultural land, 650 acres for industrial parks, 200 acres suitable for shopping centers, options on 1,000 acres in urban centers (16% exercised), and air rights on an estimated 150 acres.

Through the years, Marathon has consolidated and upgraded its existing land holdings by buying and selling land, developing and expanding its income producing property base, and acquiring interests in income producing properties and companies. Major joint ventures and acquisitions included;

- 100% interest, by 1968,in Foundation-Scottish Properties Ltd., owner of the Place du Canada office building. Originally Foundation Company of Canada held a 75% interest and the other 25% interest was held by the Scottish Trust Company, a previous subsidiary of Marathon, now dissolved, which owned the land leased for the building;

- a 100% acquisition of the Husky Tower Limited, a part of the Palliser Square Development project in Calgary, by 1970 and now named Calgary Tower Limited;

- a one-third interest in Project 200 in Vancouver, a waterfront development project on land and air rights formerly owned by CP Limited (Phase I has been completed);

- a 63-1/3% interest by late 1975 in Marathon Aviation Terminals Limited, a company that develops and leases aircraft and airport facilities throughout Canada.

In addition to this list of developments, Marathon has continued to expand its revenue-producing base by developing commercial, industrial, and residential properties for the most part on land previously owned by CP Limited. By 1974, Marathon owned and operated 16 office buildings, 24 shopping centers, 4 industrial parks, 70 industrial buildings, and 1,100 residential units. A breakdown of the estimated square footage of these properties by type is illustrated in Table 27.

Table 27

MARATHON REALTY CO. LTD.

TYPE AND LOCATION OF PROPERTIES, 1975

Property Type	Area	Location
Office buildings and major commercial complexes	1,900,000 sq. ft.	Montreal, Toronto, Cambridge (Ontario), Calgary, Vancouver, Barrie, Kitchener.
Shopping centers and other retail	1,900,000 sq. ft.	24 centers across Canada.
Industrial parks and other industrial	3,200,000 sq. ft.	Montreal, Sudbury, Calgary, Edmonton, Toronto.
Air cargo (50% interest Marathon Aviation Terminals)	1,750,000 sq. ft.	Principally Montreal and Toronto
Residential	1,100 units	Vancouver, Calgary and Edmonton.

Land Development Policy

In our view, the overall concept with regard to the lands that Marathon purchased from CP Limited centers around the development of those land assets that are no longer required for transportation purposes. Prior to the creation of Marathon, these lands were under-utilized and, in many cases, were allowed to lie dormant in an unattractive condition similar to that of railway properties the world over. In short, much of the company's urban land comprised freight and passenger yards designed for 19th century transportation requirements rather than its adaptability to a rapidly changing urban environment. Marathon, in conjunction with the various governments concerned and real estate partners, had developed these assets, creating badly needed commercial and residential space and improving transportation accesses. Examples include the Palliser Square in Calgary, Project 200 in Vancouver, and the Peterborough Square Development. Moreover, substantial industrial parkland, largely adjacent to railway yards, has been fully developed to meet the requirements of the industrial expansion in the suburban regions of Canada. Although the company has not been significantly active in the residential area, the 1,100 units that it has developed over the years reflect some usage of dormant railway property for this purpose. Several of the company's future projects, such as the urban renewal development planned for the False Creek area of Vancouver, will be a major attempt to utilize its land holdings to improve the environment as well as providing badly required housing in the area. The company's policy with regard to its agricultural properties has been to generally upgrade its holdings by selling certain portions and acquiring others. In general, the policy of Marathon has been to utilize its land to expand its revenue producing base from commercial, industrial, residential and agricultural properties, with the general support of the governments and the public concerned.

Select Development Projects

Following are descriptions of six of Marathon's current development projects:

- Project 200 (Vancouver). This very large Vancouver waterfront development is expected to cover approximately 20 acres and includes office buildings, related shopping centers, a new rail terminal, port facilities, apartments, hotels, and parking for more than 7,000 cars. The first phase, costing approximately $18 million, is currently occupied and consists of a 30-storey office tower, a 38,000 sq. ft. low rise building for commercial and banking interests, as well as an attractive pedestrian plaza. Marathon, Woodward Stores, and Grosvenor-Laing formed a partnership to undertake this complex.
- Peterborough Square (Peterborough, Ontario). This downtown renewal project situated on a 9-acre site will contain 223,000 sq. ft. of retail space, a 186-room hotel, a marina, and an office building. As of this date, the major portion of the project is completed and ready for occupancy.

- Arbutus (Vancouver). This 35-acre development is an apartment condominium and town house project in an exclusive area of Vancouver, which will include a retail shopping center, recreational facilities, and a fully landscaped park. Marathon will sell all the town houses and apartment units, but retain the shopping center. At this point in time, the first phase of the project is completed and 179 units have been sold. Phase 2 is in progress at present, and when fully completed will include sale of an additional 118 condominium units.
- Metro Centre (Toronto). Considered to be the largest real estate development in North America, Metro Centre is a joint partnership between CNR and Marathon, which will eventually cover an area of approximately 180 acres. Metro Centre is intended to include a new transportation center, a communication center, office buildings, and various residential and commercial facilities. This project is still in the early development phase and is currently awaiting approval of the federal, provincial, and municipal governments before construction can commence. (Study of this project has ceased pending approval of transportation requirements.)
- False Creek (Vancouver). At present in the conceptual phase, this proposed development of 140 acres on the north side of False Creek envisages eventual construction of 6,000 residential units, both high-rise and low-rise, and a marina (now under construction). Unlike the Arbutus project, Marathon will lease all of these units.
- Angus and Westmount (Montreal). These projects are in the formative phase and will include development of land in excess of railway needs.

Performance

In general, the growth of Marathon over the past 10 years has been impressive. While the company's progress has been enhanced by its huge land holdings, the size and rate of its development has been above average when compared to other companies in the real estate industry. In spite of this prolific expansion, the company's contribution to CPI remains small compared to CPI's other holdings (Table 28).

Table 28

MARATHON REALTY CO. LTD.

ANNUAL RECORD OF GROWTH, 1964-74
(Millions of dollars)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	Compounded Annual Growth
Revenue	2.2	3.6	4.5	6.9	9.5	13.2	18.7	23.3	32.7	35.4	50.7	37%
Net income	0.7	0.8	0.6	1.2	1.3	2.1	1.6	1.5	3.4	4.7	5.6	23%

Asset Value

Although it is difficult to assess the value of Marathon's landholdings by themselves, they may be roughly estimated to be worth as in Table 29.

Table 29

MARATHON REALTY CO. LTD.

VALUE OF ESTIMATED LANDHOLDINGS, 1975*

Type	Acreage	Estimated Market Value	Market Value by Category (000)
Agricultural	550,000	$50 per acre	$ 27,500
Industrial park	650	1 per sq. ft.	28,314
Shopping centers	200	2 per sq. ft.	17,424
Urban centers			
Options exercised	160	6 per sq. ft.	41,802
Air rights	150	2 per sq. ft.	13,068
			$128,108

* - Assuming government approval of present and future applications at rates advantageous to the company.

Stock Market Share

Although Marathon's growth has been substantial, the company is not the largest real estate company in Canada in terms of revenues from income producing properties, property book value, cash flow, and net income. (See Table 30.) Larger companies in this field are Trizec, Abbey Glen, and Cadillac Fairview.

Table 30

MARATHON REALTY CO. LTD.

INCOME STATEMENTS, 1971-74
(Thousands of dollars)

	1971	1972	1973	1974
Revenues from real estate and other operations	23,265	32,709	35,384	50,694
Operating & administrative expenses	13,006	18,011	17,605	28,540
Interest	6,386	7,668	7,973	9,939
Depreciation	1,462	2,117	2,091	2,428
Pre-tax income	2,411	4,913	7,715	9,787
Provision for income taxes				
Current	(35)	71	136	211
Deferred	991	1,477	2,867	3,994
Total	956	1,548	3,003	4,205
Net income for the year	1,455	3,365	4,712	5,582

Marathon's balance sheets for the years 1973 and 1974 follows in Table 31.

Table 31

MARATHON REALTY CO. LTD.

CONSOLIDATED BALANCE SHEETS, 1973 AND 1974
(Thousands of dollars)

	1973	1974		1973	1974
Assets					
Cash	66	110	Bank indebtedness	17,540	31,270
Rent & Sundry	2,304	3,347	Accounts payable & accrued liabilities	3,390	9,146
Due from affiliated cos.	1,735	2,703	Dividend payable	1,350	1,450
Mortgages, loans & agreements for sale	4,352	3,874	Amounts due to affiliated cos.		
Prepaid expenses & other deferred expenses	2,308	4,527	Demand loan	11,795	7,177
			Accrued interest	1,559	1,639
			Other	1,065	3,260
Condominiums under construction & held for sale	5,063	5,436	Long-term debt	102,942	124,836
			Deferred revenue & other deferred	2,887	2,830
			Deferred income taxes	8,953	14,316
			Subtotal	151,481	195,924
Investment & Advances			Shareholders' Equity		
Assoc. cos.	13,374	10,326	Capital stock	36,200	36,200
Other	2,000	1,800	Retained income	8,432	11,364
Properties			Subtotal shareholders' equity	44,632	47,564
Land	40,210	54,967	Total	196,113	243,488
Building	131,528				
Construction in progress	2,955	12,374			
Subtotal	174,693	223,896			
Less: Accum. depreciation	9,782	12,531			
Total	164,911	211,365			
	196,113	243,488			

Summary

Since its incorporation under the CPI concept in 1963, Marathon has become a significant factor in the Canadian real estate industry. The company has used its land base to provide necessary commercial, industrial park, agricultural, and residential space in many centers across Canada. While the company's land assets are greater than those of any other real estate firm in Canada, it enjoys no particular advantage in obtaining capital or marketing rental space. During the course of its progress, Marathon's labour force has increased from 320 in 1967 to approximately 850 at the end of 1974.

COMMANDANT PROPERTIES

Commandant Properties Limited was originally incorporated in 1929 and 40%-owned by CP Limited. CP Limited proceeded to acquire the remaining 60% in 1930 when the original promoter of the Seigniory Club Inc., a private recreational club, failed to live up to his development commitment. This facility, which remained a private club for many years, was converted into a year-round hotel resort in 1970. In 1974, the hotel and its facilities as well as the land immediately surrounding the area were sold to CP Hotels. The remaining assets of Commandant Properties comprise over 100 square miles of land 80 miles west of Montreal and 40 miles east of Ottawa. In 1975 Commandant Properties, whose purpose is to manage and develop the real estate, forest products, and recreational potential of the company, was acquired by, and is now a wholly-owned subsidiary of, CPI.

THE GREAT LAKES PAPER COMPANY, LIMITED

The Great Lakes Paper Company, Limited ("Great Lakes") is a medium-sized Canadian producer of newsprint, sulphite and bleached kraft pulp, and stud lumber, primarily for export to the United States. Located in Thunder Bay, Ontario, the company shipped 524,345 tons of newsprint and pulp in 1974, resulting in sales of $114,400,000 and net income of $14,938,000.

CPI's first exposure to Great Lakes occurred in 1964, when it acquired a 3.81% interest or approximately 137,310 shares of the outstanding common equity. The position was increased to 11% in 1967, 25.7% in 1968, 42.2% in 1969, 51.4% in 1971, and 55.4% by the end of 1974. The total cost of the present holding is estimated to be $46,661,720 or $23.32 per Great Lakes share. The current market price of Great Lakes' shares is $22.25. Practically all of the increased ownership of the company was acquired through open market purchases.

Although the specific reasons for the acquisition are not documented, it is our belief that the following were primary factors:

- It was considered a good investment in an industry that had excellent long-term prospects;

- Because of the relatively small capitalization, the acquisition could be completed within the capital limitations of the growing CPI;
- It enabled CPI to diversify out of western Canada, where the majority of its resource holdings were located.

All available information indicates that the acquisition of Great Lakes was not publicly opposed by the management, shareholders, or directors of the company. In addition, we find that no opposition was expressed by governments or special interest groups.

Market Share

The company has a relatively minor share of the market for Canadian newsprint and pulp, as illustrated in Table 32.

Table 32

THE GREAT LAKES PAPER CO. LTD.

SHARE OF NEWSPRINT AND PULP MARKETS

1964-74

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
					(Thousand tons)						
Newsprint											
Canadian shipments	7,310	7,747	8,385	7,968	8,096	8,797	8,704	8,362	8,901	9,199	9,597
Great Lakes shipments	296	337	374	362	315	351	335	341	339	414	347
Share of market	4.04%	4.35%	4.46%	4.54%	3.89%	3.97%	3.85%	4.07%	3.80%	4.5%*	3.6%
Bleached Kraft Pulp											
Canadian shipments		1,719	2,137	2,393	3,024	3,731	3,692	3,700	4,353	4,926	5,264
Great Lakes shipments		16	89	131	157	168	185	166	166	186	177
Share of market		1.0%	4.2%	5.5%	5.2%	4.5%	5.0%	4.5%	3.8%	3.8%	3.4%

* - Strike year for the Canadian industry. Great Lakes unaffected.

Over the 10-year period reviewed, the company's share of the newsprint market has remained essentially unchanged. On average, its market share has shown a minor decline since 1965.

Average Market Share

1965-1967	4.45
1967-1969	4.13
1969-1971	3.97
1971-1973	4.13

Between 1965 and 1967, the company had 4.45% of the market for Canadian newsprint. This percentage declined to 4.13% between 1967 and 1969 and to 3.97% between 1969 and 1971. A slight improvement to 4.13% was achieved in the 1971-73 period, but this average is somewhat overstated because there were significant strikes among other companies in the industry during that period. In 1974, which was affected by a strike, the market share of the company's newsprint operation was 3.6%.

The trend in the company's other principal product, chemical pulp, has not been fundamentally different from newsprint, although there did appear to be a declining market trend from 1971 onwards. Great Lakes' pulp market share increased significantly between 1964 and 1967 as a result of additional capacity, remained essentially unchanged between 1967 and 1970, and declined from 1970 to 1974, (but 1974 was affected by a strike). In 1973, a new capacity increase program was announced by Great Lakes.

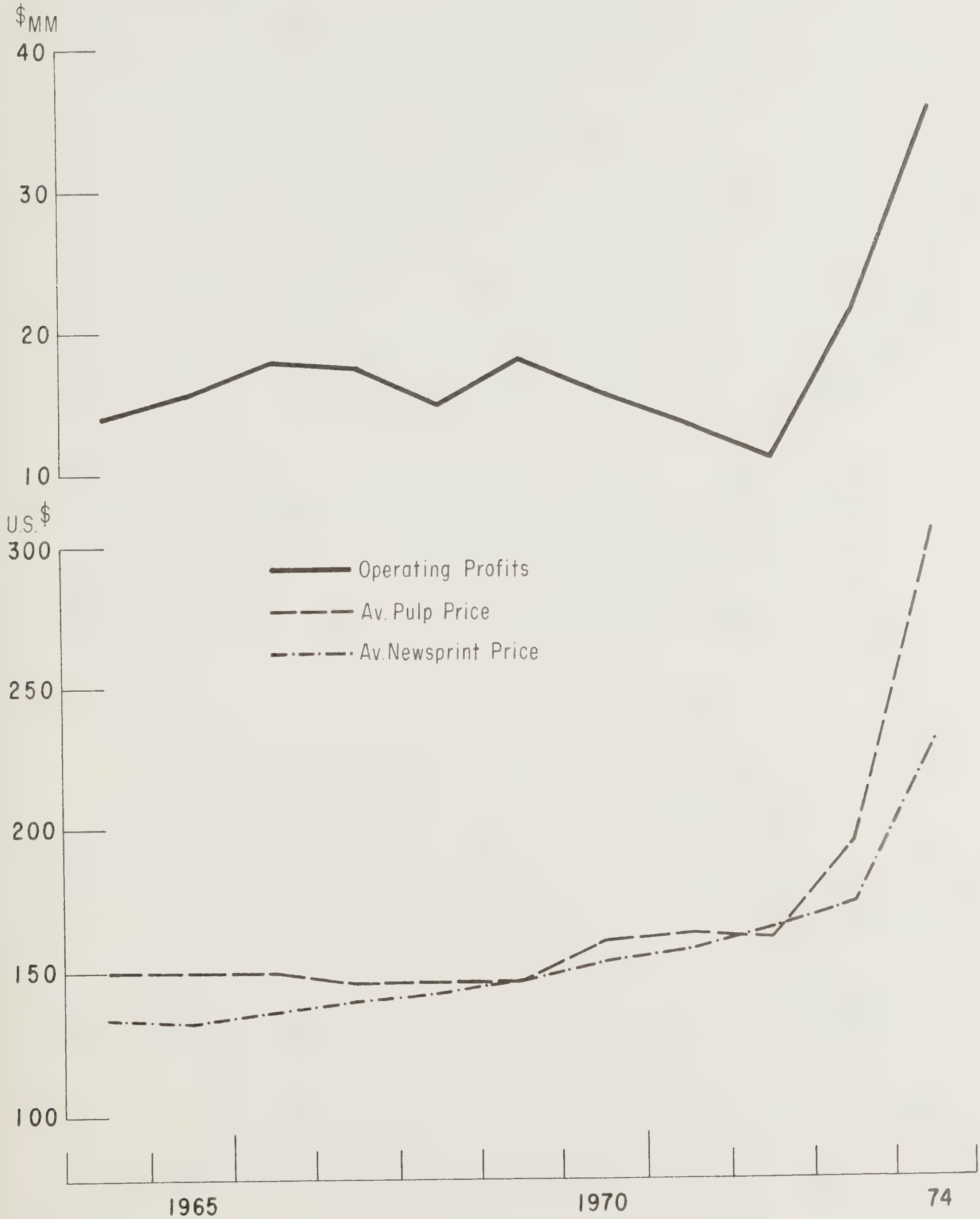
Pricing

The pricing of Great Lakes' principal products, pulp and newsprint, are a function of the North American price for the respective commodities. These prices are largely set in the U.S. market, where the majority of the free world's production is consumed. Great Lakes, with only 3.5% and 4.5% of the markets for Canadian pulp and newsprint, respectively, is not a price leader and generally follows the industry. As is evident from Chart 8, there has been a fairly close correlation between the price of these commodities and the company's operating earnings.

Between 1964 and 1972, prices of newsprint and pulp increased only marginally at approximately 1.2% and 3.0% per annum. Given this fairly stable market price, together with excess capacity and operating expense increases in excess of sales increases, the company's operating margins deteriorated from a high of 35.2% in 1964 to a low of 15.7% in 1972. As a result of significantly improving newsprint and pulp prices in the North American market from 1972 to 1974, (a function of significantly greater demand with little additions to capacity) Great Lakes' sales and operating earnings increased at unprecedented rates. (Newsprint prices for the 1964-74 period are found in Appendix E).

CHART 8

Relationship between the Great Lakes Paper Co. Operating Earnings and Newsprint and Pulp Prices



Performance

The company's sales and earnings record is set out in Table 33.

Table 33

THE GREAT LAKES PAPER CO. LTD.

FINANCIAL SUMMARY, 1970-74
(Thousands of dollars)

	1970	1971	1972	1973	1974
Net sales	71,822	71,010	69,433	92,821	114,442
Operating profit	15,728	13,446	10,892	21,360	35,441
Operating margin	21.9%	18.9%	15.7%	23.0%	31.0%
Interest on long-term debt	2,537	2,306	2,043	1,859	1,733
Depreciation	5,873	5,843	6,085	6,454	7,267
Earnings before income taxes	8,820	5,747	2,927	13,161	26,625
Income taxes	4,475	2,510	1,319	5,540	11,687
Net earnings	4,345	3,237	1,608	7,621	14,938

In the table below, we have compared the five-year profitability performance of Great Lakes with the general forest products industry. While such a comparison is not ideal since the company is not involved significantly in logging and lumber activities, we have used the industry comparison for a lack of a comparable company. On this basis, Great Lakes has generally outperformed the industry in terms of the three standard measures of profitability (Table 34).

Table 34

THE GREAT LAKES PAPER CO. LTD.

PERFORMANCE COMPARED TO INDUSTRY, 1970-74

	1970	1971	1972	1973	1974	5-year Average
Net Margins						
Industry	2.6%	1.0%	2.9%	6.6%	8.7%	4.4%
Great Lakes	6.0	4.6	2.3	8.2	13.1	6.8
Return on Equity						
Industry	4.3	2.6	5.6	15.6	21.6	9.9
Great Lakes	15.1	10.9	5.3	22.1	32.6	17.2
Return on Invested Capital						
Industry	3.4	2.2	3.8	8.6	11.7	5.9
Great Lakes	7.1	5.8	3.6	11.2	16.7	8.9

In general, the superior performance can be attributed to the fact that the company is in the newsprint and pulp market principally, and accordingly is not as subject to the violent fluctuations that have been characteristic of the lumber and logging industries. Secondly, it is our view that the company has an excellent management group, whose decisions have resulted in greater productivity and profitability.

Stock Market Data

Following is relevant market data on the company over the last five years (Table 35).

Table 35

THE GREAT LAKES PAPER CO. LTD.

STOCK MARKET DATA, 1970-75

	1970	1971	1972	1973	1974	1975
Share price						
- high	$25	$21-1/2	$21	$30-1/2	$26	$25
- low	15-1/2	12-1/2	14-1/2	19	14-1/2	14-3/4
Earnings per share	$1.21	$0.90	$0.45	$2.11	$4.14	$1.78
Price/earnings ratio						
- on high	20.7	23.9	46.7	14.5	6.3	14.0
- on low	12.8	13.9	32.2	9.0	3.5	8.3
- on average	16.8	18.9	39.5	11.8	4.9	11.2
Dividend	$1.00	$0.65	$0.30	-	-	-
Yield						
- on high	4.0%	3.0%	1.4%	-	-	-
- on low	6.5	5.2	2.1	-	-	-

Summary

Great Lakes Paper is a highly efficient medium-sized pulp and newsprint producer. The company's share in the markets it serves is small and its pricing structure is determined by supply and demand conditions, principally in the U.S. market. Largely as a result of good management, Great Lakes has remained very profitable. Moreover, the company's affiliation with CPI has enabled it to draw on the financial resources of the parent to complete its expansion plans. In the 1964-74 period, the number of people employed by Great Lakes Paper has increased from 2,100 to 3,000.

CANPAC MINERALS LIMITED

CanPac Minerals Limited, 60%-owned by CPI and 40%-owned by Cominco, is CPI's mineral exploration arm. The company's principal assets are 1,668.2 million tons of thermal coal and 133.7 million tons of coking coal. CanPac Minerals was incorporated as a wholly-owned subsidiary of Canadian Pacific Oil and Gas ("CPOG") in 1969 for the purpose of developing non-petroleum assets and acquiring promising properties that would enable CanPac Minerals to prosper as a self-sufficient enterprise. Prior to the merger of Central-Del Rio Oils with CPOG in 1971, certain of CPOG's coal assets and other non-petroleum assets were transferred to CanPac Minerals. These included Lethbridge Collieries Limited, Ardley Coal Limited, potash-bearing lands in Saskatchewan, mineral exploration rights, the non-coal and non-petroleum mineral rights of the E&N lands on Vancouver Island, and various other mineral rights, the majority of which were coal properties in Alberta. The mineral rights of the E&N lands were later relinquished to the province of British Columbia when it became apparent that the B.C. Mineral Land Tax Act of 1974 would substantially increase the tax liability of the lease holders. Of the 160,955 acres involving these mineral rights, 135,639 were surrendered to the Crown.

CanPac Minerals has continually concentrated on coal exploration activities. In 1969, the company received a 15-year contract from Japanese interests to develop its Fording properties at Fording River in B.C. This property contains some 32,735 acres of Crown licences and is operated by Fording Coal Limited on a royalty basis. (A more detailed review of the Fording properties and Fording Coal Limited will follow under a separate heading.)

In 1971, CanPac began a more aggressive exploration, development, and acquisition program, primarily in the thermal coal field. Concurrently, CanPac negotiated to purchase Dynamic Power Corporation Ltd., which owned 60% of Ardley Coal, and through which CanPac acquired additional reserves totalling approximately 336 million tons of recoverable coal. (Prior to 1971 Ardley Coal was 60%-owned by Dynamic Power and 40%-owned by CanPac Minerals.)

In 1972, an agreement was signed with Calgary Power Limited to develop the Wabamun coal field. Under the terms of the agreement, Calgary Power was to receive the bulk of the output and pay a royalty to CanPac Minerals. By the end of 1972, the company owned proven reserves of 1,668.2 million tons of thermal coal and 133.7 million tons of coking coal in the Ardley, Brooks, Lethbridge, Morinville, Tofield, Sheerness, Battle River, Wabamun and Dodds-Round Hill regions of Alberta.

While the reserves of CanPac Minerals are substantial by Canadian standards, they are not at this time sufficiently developed to be a major contributor to CPI. The net income produced by this subsidiary amounted to only $445,000 in 1973 and $747,000 in

1974. Recently, however, CanPac Minerals and Calgary Power announced a major power project for western Canada to be developed over an extended period of time, probably 10 years, calling for the largest thermal generating station in western Canada, with six 375,000 kilowatt power units. The property, which covers 35,000 acres, 30 miles southwest of Edmonton, is estimated to be supplied by 300 million tons of coal from CanPac over a 35-year period.

Summary

Since its incorporation and transfer to CPI, CanPac Minerals has consolidated its holdings, conducted feasibility studies on its reserves, and brought several properties into commercial production. Now under Cominco's management, CanPac Minerals has become one of the most promising coal energy companies in western Canada. Although it is somewhat premature to evaluate the company's performance on an economic basis, it is apparent that its development of the Fording property and planned development with Calgary Power* will materially assist the economy of the region through capital investment and employment of people.

FORDING COAL LIMITED

Fording Coal Limited, 60%-owned by CPI and 40%-owned by Cominco, is the operator of a coking coal property owned and leased by CanPac Minerals Limited. Incorporated in 1968 to take advantage of the developing demand by the Japanese for western Canadian coking coal, the company did not commence production until 1972. In April of that year, Fording Coal began operations concerning the 15-year contract with the Japanese (discussed in the section on CanPac Minerals) for delivery of approximately 45 million tons or three million tons per annum. (An explanation of the Japanese contract is included in Appendix C.)

Fording Coal is a relatively young company within the CP group, and only recently has overcome its operational difficulties to the point where it has become profitable. After recording a loss in its first year of operation in 1973, the company has reached a profitable position based on continued strong export demand, higher prices, and improved operational conditions. By the end of 1975, the company is expected to be producing at its maximum rated capacity.

Today, Fording Coal is one of the largest western Canadian coal operators. The company, however, enjoys no special market or pricing power and its commercial success or failure is, to a large extent, determined by worldwide supply/demand conditions.

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* - Pending approval by the Alberta government.

Since its first full year of operation in 1973, Fording Coal has recorded the following net income: a loss of $5.9 million in 1973, a profit of $1.2 million in 1974, and a profit of $13.1 million in the first nine months of 1975.

Pricing

Fording Coal's pricing structure is determined by negotiations with Japanese interests. In addition to Fording, the Japanese negotiate with four other western Canadian coal producers who enjoy similar long-term contracts. The contractual period of the five major Canadian producers follow.

Producer	Period	Quantity (000 tons)
Kaiser	1973-1984	52,875
Fording	1972-1987	44,500
McIntyre	1975-?	-
Coleman	1967-1982	18,425
Cardinal	1970-1985	20,650

The price of coal is set in the international marketplace, with the U.S. price setting the precedent. Each company's price is negotiated on an individual basis with Japanese interests, usually around March 31, the end of the Japanese fiscal period. There is no price leader and no particular company dominates the market.

In addition, the price of coal is a function of its quality as determined by its ash content, BTU rating, and volatility and the distance to market. As a result of their location, similar quality and markets served, western Canadian coking coal prices are approximately the same.

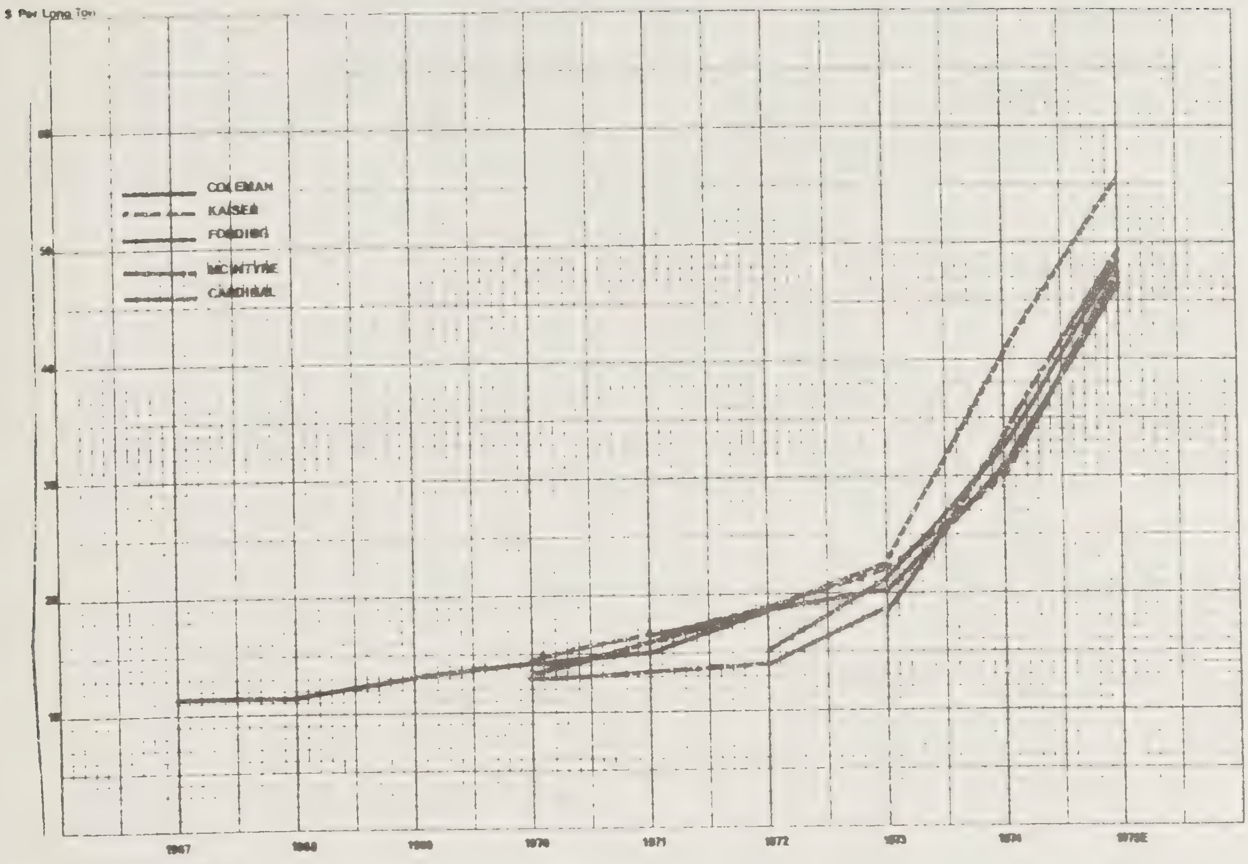
As is evident in Chart 9, the prices received from the various producers have tended to trend upward in recent years based on exceptionally high worldwide demand, and have increased dramatically since 1972 when all the major producers were operating. From that year onward, average prices have increased from $17.04 in 1972 to $20.20 in 1973, to $26.75 in 1974, and to an estimated $47.60 in April of 1975.

Summary

The development of Fording Coal was made possible through the financial support and backing of CPI and Cominco. In addition to providing jobs in a depressed area of British Columbia (the company currently employs 850 people), the company has aided Canada's balance of trade position since it exports virtually all of its output. Because of its small size in relation to the other participating companies, Fording Coal enjoys no special advantages in

CHART 9

Canadian Coking Coal Prices



the world market. Through its development by CPI the company has been able to benefit from the growing demand of the Japanese for Canadian coking coal.

THE ALGOMA STEEL CORPORATION, LIMITED

The Algoma Steel Corporation, Limited (Algoma) is Canada's third largest steel producer and accounts for approximately 20% of domestic market shipments. In 1974, sales were $475 million and earnings were $54 million. The company's principal products, plate and sheet steel and structural steel, account for approximately 77% of its shipments. In addition, Algoma owns a 43% equity interest in Dominion Bridge Company Limited, a major construction engineering firm with sales of over $370 million. (A discussion of Dominion Bridge follows this section).

CPI's initial position in Algoma Steel was acquired in September, 1973, when the principal shareholder, Mannesman A.G. of West Germany, offered to CPI 2,902,113 shares or approximately 25% of its outstanding common stock. From that period until the end of 1973, CPI made open market purchases of Algoma totalling roughly 80,000 shares. In the first five months of 1974, CPI's holdings were increased by 417,850 shares. The highest shares traded during the period were $28 with the lowest approximately $20. On June 14, 1974, CPI made an offer to the common shareholders of

Algoma to purchase an additional 2,500,000 shares at a price of $32 per share, well above the prices recorded on the various exchanges over the previous year and a half. The tender offer was successful, bringing CPI's share of Algoma to 50.5% of the outstanding common equity, or an estimated 5,899,961 shares. In total, the acquisition cost CPI $150,429,000 or an average price of $25.50 per share--the same as the market price at time of writing. To our knowledge, there was no significant opposition to the acquisition by the shareholders of Algoma, the officers and directors, or the public in general. In fact, the offer was oversubscribed.

In our view, the fundamental reasons for the acquisition of Algoma were (1) because a controlling block had been offered by a foreign holder and (2) because CPI considered Algoma a basically sound investment in terms of price, which reflected an undervalued situation, and longer-term potential.

The purchase of Algoma Steel by CPI represented a major entry by the company into the steel business. While it is still too early to determine the effects of the acquisition, it is our view that it will not materially affect the competitive position of the steel industry. The initial acquisition of a control block effectively repatriated what had been in foreign hands. Day-to-day operations of Algoma are left to management, with CPI merely monitoring activities. At the present indicated dividend rate, CPI's yield on its investment in Algoma is approximately 6.5%, considerably less than its average borrowing costs on the funds required to make the transaction in the first place.

Market Share

As apparent in the tables below, the overall market share of Algoma Steel, both in terms of production and shipments, has been on a declining trend over the past 10 years. Production, which accounted for 25.6% of the market in 1964, declined to 18.8% in 1972, where it appears to have stabilized. The same trend is evident in Algoma's steel shipments. In 1964, the company shipped 24.9% of all steel shipments in Canada. This had dropped to 20.9% by 1967 and 18.4% by 1971. From 1971 to 1974, the market share decreased marginally to between 17.8% and 17.6% and appears to have leveled off (Table 36).

Table 36

ALGOMA STEEL CORPORATION LTD.

MARKET SHARES OF PRINCIPAL PRODUCTS, 1964-74

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
					(Thousand tons)						
Raw Steel Production											
Canadian industry	8,968	9,904	9,821	9,554	11,058	9,895	12,154	11,964	12,892	14,549	14,795
Algoma Steel	2,301	2,486	2,347	2,073	2,261	1,725	2,495	2,360	2,426	2,650	2,763
Share of market	25.6%	25.1%	23.9%	21.7%	20.4%	17.4%	20.5%	19.7%	18.8%	18.2%	18.7%
Steel Product Shipments											
Canadian industry	6,710	7,102	7,128	6,980	8,211	7,985	9,085	9,221	9,830	10,936	11,439
Algoma Steel	1,670	1,779	1,731	1,461	1,563	1,256	1,760	1,700	1,753	1,946	2,018
Share of market	24.9%	25.0%	24.3%	20.9%	19.0%	15.7%	19.4%	18.4%	17.8%	17.8%	17.6%

Performance

The performance of Algoma Steel cannot be evaluated solely on its own merits but must be compared to that of other steel companies operating in Canada. By doing so, we have found that in terms of historical margins, returns, and employment of capital, the company has underperformed the industry. This is illustrated in Table 37.

From 1964 to 1973, there has been a declining overall trend in the profitability of the Canadian steel industry in general, and of Algoma in particular. Pre-tax margins, which were at a peak in the middle sixties, have continued to decline on average through 1973. Industry pre-tax profit margins, which averaged 15.6% between 1964 and 1969, declined to an average of 12.6% in the 1970-73 period. After-tax margins have declined from 9.5% in the 1964-69 period to 8.4% in the 1970-73 years. Return on average equity and total investment has also shown a declining trend, with return on equity averaging 11.8% between 1964 and 1969 and 11.0% in the 1970-73 period. In addition, return on investment, which averaged 7.9% in the 1964-69 period, declined to an average of 7.2% from the years 1970 to 1973.

Algoma's performance resulted in significantly larger deteriorations in reference to margins and returns. Pre-tax margins, which averaged 15.4% in the 1964-68 period (the company had a loss in 1969) declined to 5.6% in 1970-73. After-tax margins also declined severely, from 9.5% (see Table 37) in the 1964-69 years

Table 37

ALGOMA STEEL CORPORATION LTD.

PERFORMANCE COMPARED TO INDUSTRY, 1964-73

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	Ten-year Average
						(Per cent)					
Pre-tax margins											
Industry	18.7	18.4	16.0	13.3	15.9	11.3	13.3	12.0	10.7	14.2	14.4
Algoma Steel	21.2	21.9	16.7	9.3	8.0	(0.8)	6.2	4.3	3.9	8.2	9.9
After-tax margins											
Industry	10.1	9.7	9.0	8.7	11.5	7.8	9.2	7.7	7.6	8.9	9.0
Algoma Steel	12.1	12.4	10.1	9.0	8.7	4.5	8.7	4.3	4.0	6.2	8.0
Returns on equity											
Industry	13.8	13.3	11.4	10.0	13.6	8.4	11.4	9.7	9.9	13.1	11.5
Algoma Steel	15.1	16.2	12.2	7.1	8.9	4.4	10.2	5.4	5.5	9.3	9.4
Returns on invested capital											
Industry	10.3	9.1	7.4	6.3	8.7	5.6	7.6	6.3	6.4	8.6	7.6
Algoma Steel	11.0	11.5	8.4	4.7	5.7	2.9	7.0	3.7	3.7	6.3	6.5

Sources: Steel Profits Inquiry 1974
Annual Reports

to 5.8% between 1970-73. Algoma's return on common equity, which averaged 10.6% in the years 1964 to 1969, declined to 7.6% in the 1970-73 period. Return on total investment also declined, from 7.4% in 1964-69 to 5.2% in 1970-73.

In 1974, with the advent of an improving trend in steel prices, and the early benefits of a major expansion and modernization program, the company's margins and returns have improved from the low levels of the late 1960s and the early 1970s, as illustrated in Table 38.

Table 38

ALGOMA STEEL CORPORATION

FINANCIAL SUMMARY, 1964-74
(Thousands of dollars)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Net Sales	226.4	241.9	235.5	200.6	216.2	183.1	257.4	271.8	310.0	376.2	474.1
Earnings (before taxes)	47.7	52.9	39.3	18.6	17.3	(1.5)	15.9	11.8	12.2	30.8	57.9
Pre-tax margins	21.1%	21.9%	16.7%	9.3%	8.0%	-	6.2%	4.3%	3.9%	8.2%	12.2%
Income taxes	20.5	22.9	15.5	4.5	(1.5)	(9.8)	(6.4)	0.1	(0.3)	7.5	13.5
Earnings before equity in associated company	27.2	30.0	23.8	14.1	18.8	8.3	22.3	11.7	12.5	23.3	44.4
Net margins	12.0%	12.4%	10.1%	7.0%	8.7%	4.5%	8.7%	4.3%	4.0%	6.2%	9.4%
Equity in earnings of associated company	1.2	2.9	2.5	1.7	1.6	2.2	3.0	2.7	5.9	5.3	9.4
Net income	28.4	32.9	26.3	14.8	20.4	10.5	25.3	35.9	18.4	28.6	53.8
Return on average equity	15.1%	16.2%	12.2%	6.6%	8.9%	4.5%	10.4%	13.4%	6.4%	9.3%	15.9%
Return on total invested capital	11.0%	11.5%	8.4%	4.7%	5.7%	2.9%	7.0%	3.7%	3.7%	6.3%	10.2%

Stock Market Data

In Table 39, stock market data for the years 1970 to 1975 inclusive is set forth.

Table 39

ALGOMA STEEL CORPORATION

STOCK MARKET DATA, 1970-75

	1970	1971	1972	1973	1974	1975
Share price						
- high	$15-3/4	$16-3/4	$15-1/4	$22-3/8	$29-1/4	$30-1/8
- low	11-1/4	11-1/8	12	13-1/8	19-1/2	23-1/2
Earnings per share	$2.18	$3.10*	$1.59	$2.45	$4.61	$3.67
Price/earnings ratio						
- on high	7.2	5.4	9.6	9.1	6.3	8.2
- on low	5.2	3.6	7.5	5.4	4.2	6.4
- on average	6.2	4.5	8.6	7.3	5.3	7.3
Dividend	$0.50	$0.50	$0.50	$0.625	$1.35	$1.40
Yield						
- on high	3.2%	3.0%	3.3%	2.8%	4.6%	4.6%
- on low	4.4	4.5	4.2	4.8	6.9	5.9

* - Includes an extraordinary credit at $21.5 million amounting to $1.85 per share.

Summary

The purchase of Algoma Steel represented a major move by CPI into the steel industry. While it is too early to evaluate the performance of Algoma since its acquisition by CPI, the company's position in the industry is not expected to change materially. CPI, however, could be instrumental in improving Algoma's financial condition through guarantees or loans from CP Securities. Algoma has been undergoing a major capacity expansion program and, as a result, has become over-leveraged and has insufficient working capital. In the event that this situation does not significantly improve, CPI's aid would be beneficial.

DOMINION BRIDGE COMPANY LIMITED

Dominion Bridge, 43% owned by Algoma Steel Corporation, is a major construction engineering company that designs, fabricates, and erects structural steel products throughout the United States and Canada. In addition to its principal activities, the company manufactures and distributes a variety of industrial products, as well as some secondary steel.

During 1964, a 43% equity interest in Dominion Bridge was acquired by Algoma Steel through a tender offer. On June 26, 1964, Algoma offered to purchase 500,000 shares at $30 per share to add to its position of an estimated 627,000 shares acquired in previous years. These 1,127,000 shares represented a 43% interest in the outstanding common equity of Dominion Bridge. As a result of a two-for-one stock split announced in 1974 and further additions to its position through options and similar devices, Algoma owned an estimated 2,278,226 shares on December 31, 1974.

In general, the acquisition of Dominion Bridge represents a vertical integration since Algoma produces steel and Dominion Bridge uses it. In actuality, however, Dominion Bridge operates independently and purchases steel not only from Algoma but from other Canadian and foreign producers as well. Moreover, since approximately 45% of Dominion Bridge's sales are derived from the United States, a significant amount of steel material is purchased in that country.

Market Share

The market share of Dominion Bridge is difficult to ascertain because of the large variety of services and products that the company sells, and the many markets in which it appears to be operating. For instance, when Dominion Bridge erects a steel structure that will eventually become an office building, does this activity fall within the overall construction market or the construction engineering market? Dominion Bridge is generally thought to be the largest construction engineering firm in Canada. In terms of the U.S. market, where the majority of the company's growth has come from over the past several years, it is a very small factor.

Performance

Since 1970, Dominion Bridge has enjoyed a compounded annual growth rate in sales and net income of 17.2% and 40% respectively (see Table 40). A significant part of the company's growth has come as a result of acquisitions, most of which are located in the United States.

Table 40

DOMINION BRIDGE COMPANY LIMITED

PROFITABILITY, 1970-74
(Millions of dollars)

	1970	1971	1972	1973	1974
Sales	196.5	234.9	236.6	278.4	370.4
Net income	5.6	6.2	7.6	12.3	21.7
Net margins	2.8%	2.7%	3.2%	4.4%	5.9%

Although it is difficult to assess the performance of Dominion Bridge on a relative basis, we have compared (in Table 41) its returns on equity and on invested capital over the past five years to those of Canron Limited, the only Canadian company that could be considered comparable.

Table 41

DOMINION BRIDGE AND CANRON

MEASURES OF PERFORMANCE, 1970-74

	1970	1971	1972	1973	1974	5-year Average
Dominion Bridge						
Return on equity	6.5%	6.8%	7.8%	11.5%	18.2%	10.2%
Return on invested capital	5.7	5.7	6.3	8.9	13.9	8.1
Canron						
Return on equity	6.3	10.4	12.8	14.4	19.4	12.7
Return on invested capital	4.2	7.3	9.1	10.7	14.2	9.1

While it would appear that Canron is more profitable, a significant portion of its success is attributable to its high level of short-term borrowings. These account for approximately 37.2% of current liabilities as opposed to 16.6% for Dominion Bridge.

In short, Canron has a weaker balance sheet as a result of its greater dependency on short-term debt. If one were to add Canron's short-term borrowings to its long-term debt, the company would be highly leveraged and therefore much more vulnerable to a decline in the business cycle.

Summary

Dominion Bridge, while being 43% owned by Algoma Steel, operates relatively autonomously. We do not envision this relationship changing significantly in the near future.

CANADIAN PACIFIC SECURITIES LIMITED

Canadian Pacific Securities Limited (CP Securities), incorporated as a wholly-owned subsidiary of CPI in October 1965, is engaged largely in providing short-, medium- and long-term financing for the individual CPI subsidiaries. The company's three objectives are: (1) to provide lines of credit to individual CPI subsidiaries and associated companies (especially those not financially self-sufficient) so as to assist the companies in meeting their working capital requirements, and (2) to aid the individual companies in obtaining medium- and long-term financing.

While CP Securities is treated as a separate profit center for reporting purposes, this is secondary to the primary functions outlined above. Its overall net profit contribution is very small and is not expected to change materially in the future. The net income of the company over the past five years is estimated to be as follows:

CP SECURITIES

NET INCOME

1970	-	$126,000
1971	-	105,000
1972	-	112,000
1973	-	140,000
1974	-	279,000

CANPAC LEASING LIMITED

CanPac Leasing Limited (CanPac), incorporated in 1971 as a subsidiary of CP Limited, was purchased by CPI in 1973 for $6 million.

The leasing industry was a natural area for CP Limited to enter because of the significant amount of leasing activities engaged in by its subsidiaries, particularly those in the transportation sector. CP Limited's subsidiaries lease aircraft, railway equipment, containers, and trucks, among other items. Developing in-house lease capabilities would result in significant savings as well as the possibility for the development of the new company into a viable enterprise in itself.

CanPac today is the fourth largest commercial leasing company in Canada. Moreover, CanPac's business has evolved to such an extent that by the end of 1974 approximately 70% of its business was derived from organizations outside the CP group. The earnings of CanPac have been small since it is still in the early stages of development, and 1974 earnings for the company are at $501,343.

Market Share

As set forth in the table below, CanPac's share of the Canadian leasing business varies according to the method of examination used. Utilizing the most appropriate method, lease receivables, we find that the company's market share has increased to 14% of the Canadian market in 1974 from 10.1% in 1973. This significant improvement in market share resulted from the expansion of CanPac's activities made possible through the proceeds of a $15,000,000 debenture issued to CP Securities, whose debt is guaranteed by CPI. On the basis of total leasing assets in Canada, CanPac's share has improved from 8.9% in 1973 to 9.5% in 1974.

Table 42

CANPAC LEASING LTD.

MARKET SHARE 1973 AND 1974
(Thousands of dollars)

	1973	1974
Lease Receivables (less a provision for doubtful accounts)		
Total Canadian financing leasing corporations	289,820	422,195
CanPac	29,249	58,983
Market share	10.1%	14.0%
Total Leasing Assets		
Total Canadian financing leasing corporations	440,541	643,237
CanPac	39,069	61,402
Market share	8.9%	9.5%

Source: Annual Report of CanPac Leasing, Statistics Canada.

Performance

The company's profitability figures for 1973 and 1974 are set out in Table 43.

Table 43

CANPAC LEASING LTD.

PROFITABILITY, 1973 AND 1974

	1973	1974
Income	3,061,837	5,250,092
Net income	455,342	501,343
Net margin	14.9%	9.5%

Although CanPac's revenue at the end of 1974 was only $5.2 million or approximately 5.4% of the Canadian total, the company's net income enabled it to achieve profitability levels superior to those of the industry in that year. The returns on equity and returns on invested capital for CanPac Leasing and the Canadian leasing industry in 1974 are set out in Table 44.

Table 44

CANPAC LEASING LIMITED

MEASURES OF PERFORMANCE, 1974

Return on equity	
Canadian industry	2.4%
CanPac	6.4
Return on invested capital	
Canadian industry	1.8
CanPac	2.3

Source: Annual Report of CanPac Leasing, Statistics Canada.

Summary

The growth and development of CanPac over such a short period of time has increased competition in the leasing industry and was made possible through the auspices of CPI, which not only conceived the idea but provided a major portion of the capital as well. This is apparent upon examination of CanPac's 1974 balance sheet. In addition to providing the equity capital, CPI has guaranteed CanPac's debt in the form of debentures, bank loans, and lines of credit. (See Table 45.)

Table 45

CANPAC LEASING LIMITED

BALANCE SHEETS, 1973 AND 1974

(As at December 31)

Assets	1973	1974
Deposits with Canadian Pacific Limited	$ 6,150,375	$ -
Owing by Canadian Pacific Limited	23,286	-
Lease receivables, less provision for doubtful accounts $802,831 (1973-$330,810)	41,641,738	83,171,554
Less: Deferred leasing income	12,393,002	24,188,637
	29,248,736	58,982,917
Preliminary outlays for leased assets	3,596,955	2,218,291
Furniture, office equipment and leasehold improvements - net	30,249	108,249
Unamortized debenture expense	-	73,750
Other assets	19,515	19,057
	$39,069,116	$61,402,264

Liabilities	1973	1974
Owing to Canadian Pacific Limited	$ -	$ 434,016
Accounts payable and accrued charges	402,647	575,936
Accrued debenture interest	19,021	217,750
Prepaid lease rentals	17,590	138,427
Bank loans	26,305,357	28,931,174
Canadian Pacific Securities Limited		
8.3% debenture	5,500,000	5,500,000
10 1/2% debenture	-	15,000,000
	5,500,000	20,500,000
Deferred income taxes	594,699	1,148,816
Shareholders' equity:		
Capital stock-		
Preferred shares-		
40,000 6 1/2% cumulative redeemable	4,000,000	4,000,000
Common shares-		
Issued		
500,000 (1973-200,000) shares	2,000,000	5,000,000
Retained income	229,802	456,145
	6,229,802	9,456,145
	$39,069,116	$61,402,264

PART 3

INVESTMENT PORTFOLIO

In addition to the operating subsidiaries mentioned previously, CPI ownes a sizable investment portfolio valued at approximately $201.6 million. The portfolio as of August 15 1975, is shown below in Table 46:

Table 46

CANADIAN PACIFIC INVESTMENTS LTD.

INVESTMENT PORTFOLIO

(As at December 31, 1975)

	Number of Shares	Percentage of Outstanding Voting Shares (Per cent)	Cost ($000)	Approximate Market Value ($000)
Common Stocks				
Husky Oil Ltd.	354,000	3.65	4,053	6,284
MacMillan Bloedel Limited	2,849,600	13.40	82,560	50,951
MICC Investments Limited	410,500	7.19	1,880	4,002
Norcen Energy Resources	358,200	1.62	5,015	3,313
Rio Algom Limited	1,331,956	9.88	30,823	38,960
TransCanada PipeLines Limited	4,501,457	14.21	52,703	48,976
Union Carbide Canada Limited	825,300	8.25	18,375	16,300
Other			7,432	6,363
			202,751	175,149
Preferred stocks			7,424	4,611
Bonds, debentures and notes			7,815	7,174
			$217,990	$186,934

Investment Policy

In general, it has been CPI's policy to invest a portion of its cash flow in Canadian natural resource companies. The size of the portfolio varies from year to year, and its main contribution rests with its dividend income and not with its trading profit capabilities. To our knowledge, there are no financial, operational, or managerial ties between CPI and the companies found in Table 46. CPI in most cases, however, is the largest single shareholder and, accordingly, has one member on the boards of TransCanada PipeLines Limited and Union Carbide Canada Limited, and two members plus one member from Cominco on the board of MacMillan Bloedel. In addition, the President of Marathon Realty, a wholly-owned subsidiary, is on the board of MICC Investments Limited.

Relationship to Subsidiaries

Except for the fact that some of the portfolio holdings are involved in the same industry as several of the majority controlled subsidiaries, there is little, if any, relationship between the two areas. While Pacific Logging, Great Lakes Paper, and MacMillan Bloedel are all in the forest products industry, MacMillan Bloedel has no financial, administrative, legal, or operational ties with CPI or CP Limited. In fact, in the B.C. logging industry, Pacific Logging and its subsidiaries compete with MacMillan Bloedel, and MacMillan Bloedel in turn competes with Great Lakes Paper with regard to newsprint exports to the United States. Even if CPI owned 50% of MacMillan Bloedel, its portion of the sales and net earnings of all its forest products holdings would be less than that of one large U.S. multinational corporation involved in forest products, Georgia-Pacific. This is evident in the following table.

SALES AND EARNINGS OF FOREST PRODUCTS, 1974
($000)

CPI, Assuming 50% Interest in MacMillan Bloedel		Georgia-Pacific	
Sales	Net Earnings	Sales	Net Earnings
801,980	54,224	2,432,350	164,350

Moreover, while Rio Algom could be classified under CPI's mines and metals holdings, there is virtually no relationship between that company and Cominco. CPI, having no representation on Rio Algom's board, has no input into its overall direction, and this is true for the remaining portions of the portfolio as well.

Performance

CPI's rate of return on the original cost of its portfolio in 1974 is 4.4%. This cannot be termed an excessive yield. Moreover, in terms of market valuation, the portfolio has depreciated overall by 17.3%, with the largest holdings depreciating significantly. This is shown in Table 47.

Table 47

CANADIAN PACIFIC INVESTMENTS LTD.

PORTFOLIO DEPRECIATION

(As at December 31, 1975)

Holdings	% Increase or Decrease from Original Cost
Husky Oil	56.0%
MacMillan Bloedel Limited	(38.3)
TransCanada Pipe Lines Limited	(7.1)
MICC Investments Limited	112.8
Norcen Energy Resources	(33.9)
Rio Algom Limited	26.4
Union Carbide Canada Limited	(11.3)
Total	(14.2%)

Summary

While CPI has a very large equity investment portfolio, it does not control any of the companies held. Moreover, there are no financial or operational relationships between the portfolio positions and the companies within CPI or CP Limited.

The investment portfolio has occasionally been used in the past to gain control of select Canadian companies; however, this by no means indicates that it will be so used in the future.

PART 4

CONCLUSION

Since 1962, Canadian Pacific Limited has evolved from primarily a transportation concern to a fully integrated transportation and natural resource company. In so doing, the company has remained essentially Canadian-owned with multinational capabilities.

Under a holding company framework, CPI Limited has been organized into individual profit centers by classification of business. The asset base of the company now comprises assets with development potential acquired from the parent company and holdings in developed enterprises acquired from outside sources. While the company has achieved remarkable growth in recent years, the rate of return on investment of both CPI and CP Limited, on average, has been lower than most industry groups.

During the course of our examination of CPI, as it relates to corporate concentration, we found that while the company had accomplished many things in terms of asset development, acquisitions, and growth, neither CP nor any of its subsidiaries wielded any unusual power in the marketplace. The formation and development of CPI, however, has resulted in certain benefits to the Canadian economy, the most important of which were the financing of export-related activities, financing of capital projects that could not have been undertaken independently, developing multinational capabilities, assisting in the formation of new capacity capabilities, achieving substantial economies of scale, repatriating foreign interests in a Canadian company, and introducing additional competition in the economy by the formation and development of commercially viable Canadian enterprises. In achieving these results, the company substantially added to its direct labor force.

Over the years, CP Limited and CPI, because of their borrowing capacity, have aided the development of their subsidiaries by guaranteeing their debt and/or making loans and lines of credit available. A recent example is the case of an export-related company, The Great Lakes Paper Company, whose proposed $168.7 million expansion program was made possible through the extension of a line of credit of $40 million by Canadian Pacific Securities, itself a subsidiary of CPI. The expansion program, which includes a 252,000 ton per year bleached kraft pulp mill and an increase in stud capacity of 100 million board feet, represented the first capacity increases announced by a Canadian producer within the last several years and should enhance Canada's export capabilities. A further example is Fording Coal, where financial guarantees and lines of credit extended by CPI and Cominco made possible the development of the property. Today, after five years of unprofitable results, Fording is a commercial success, exporting all of

its output to Japan. In Cominco's early history, the financial and managerial support given to it was a major factor in enabling that company to become a truly multinational corporation, competing effectively in the world markets. In addition, certain economies of scale have resulted through the growth of CP Limited and CPI because of the sizable pool of managerial, research, administrative, and legal assistance made available to the subsidiaries by the parent companies, services that under other circumstances would have resulted in considerable duplication of effort. Moreover, CPI, a truly Canadian company, repatriated a sizable controlling foreign interest in Algoma Steel when it acquired a 25% position in the common stock of Algoma from a German company.

Moreover, CPI, through its growth and development has introduced a degree of competition not only to the Canadian economy but to the world marketplace as well. CP Hotels, for example, has introduced a degree of competition to the Canadian hotel market because of its growth in recent years. The growth of CanPac Leasing to the fourth largest leasing company in Canada has certainly increased competition for available leasing business, and the expansion of CPI's export-related activities through Cominco, PanCanadian, and Great Lakes, for example, has enhanced Canada's competitive position in the major world markets.

During the process of achieving these results, however, neither the company nor its subsidiaries possessed any unusual economic power that would allow it to restrict output and thereby raise prices, dominate a particular market through very high market share, or record a financial performance that could be indicative of monopolistic powers.

APPENDIX A

LOGGING PRICES PER CUNIT* - BRITISH COLUMBIA, 1964-74

Year	Fir	Cedar	Spruce	Pine	Hemlock	Balsam	Cypress	All
1964	$43.13	$34.35	$39.60	$28.73	$32.20	$29.57	-	$35.42
1965	44.74	33.34	42.32	28.40	33.86	30.53	-	36.20
1966	45.47	28.64	40.89	27.86	31.60	29.03	-	33.77
1967	42.89	28.31	40.54	28.40	31.93	29.82	-	32.97
1968	44.36	34.07	47.55	29.90	38.56	35.87	-	38.23
1969	52.36	42.84	55.55	31.21	41.93	38.97	-	45.04
1970	51.77	36.14	53.96	29.48	35.92	33.85	-	39.94
1971	46.96	36.13	56.34	27.34	36.98	36.62	-	39.50
1972	58.27	46.50	65.08	30.34	46.60	47.30	-	49.32
1973	68.13	73.73	124.23	40.18	58.18	59.08	-	68.64
1974	69.60	61.83	112.17	37.54	57.87	59.62	205.33	75.72

* - 100 cubic feet of solid wood (excluding bark).

APPENDIX B

AVERAGE PRICES FOR SELECT COMINCO COMMODITIES, 1964-74
($ U.S.)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Silver*($)	1.29	1.29	1.29	1.55	2.15	1.79	1.77	1.55	1.69	2.56	4.70
Lead**(¢)	13.6	16.0	15.1	14.0	13.2	14.9	15.7	13.9	15.3	16.3	23.2
Zinc***(¢)	13.6	14.5	14.5	13.9	13.5	14.7	15.3	16.1	17.7	20.8	36.0

* - Handy & Harmon (Monthly).
** - U.S. Producer Price 1972 and onward - prior to American Metal Market.
*** - Delivery Saint Louis - Prime Western Slab.

FORDING COAL LTD.

ROUTE TO MARKET

The contracted output of Fording follows the route set out below on its way to the ultimate market in Japan (to this date, the company has not reached its maximum productive capabilities):

From Fording River → Roberts Bank B.C. → Importing Trading Co. → End User

Mitsui & Co.	Marubeni Corp.	Total	
(Thousands of tons)			
615	615	1,230	Nippon Steel
243.5	203.5	447	Nippon Kokan
204	204	408	Kawasaki Steel
204	204	408	Sumitomo Metal
109.5	109.5	219	Kobe Steel
43.5	43.5	87	Nisshin Steel
15	15	30	Nakayama Steel
10.5	10.5	21	Osaka Iron
1,445	1,405	2,850	Subtotal
35	35	70	Mitsubishi Chem.
-	40	40	Tokyo Gas
20	20	40	Toho Gas
55	95	150	Subtotal
1,500	1,500	3,500	

CANADIAN COAL PRICES, 1967-75
(Dollars per long ton)

	COLEMAN	KAISER	FORDING	MCINTYRE	CARDINA
Signed Start	Apr. 1/67 May 19/67				
1967	$11.35				
1968	$11.60	Signed Mar. 22/68			Signed Apr. 16
1969	$13.12		Signed July 9/69	Signed Jan. 23/69	
1970	$14.27	Start Apr. 1/70 $14.11		Start Apr. 1/70 $13.90	Start Apr. 1/ $13.68
1971	$15.05	$16.80			
1972	$18.67	$18.73	Start Apr. 1/72 $15.23	$18.72	$14.02
1973	$20.14	$21.99	$18.00 Apr $21.55	Apr. $21.95	$18.95
1974	Apr. $29.00 Sept. $30.96	June $29.63 Nov. $30.24	June $31.67 Sept. $32.22	$29.53 Oct. $70.53	July $20.82 Oct. $32.82
1975	Apr. $46.00	March $36.69 Apr. $47.00	$48.20E	$55.60E	$48.80E

E - Estimated
Signed - Contract signed
Start - Start of operations

Source: The Japan Commerce Daily, Coking Coal Manual.

APPENDIX E

FOREST PRODUCTS - PRICES, 1964-74
(Per ton of 2,000 lbs.)

Newsprint - Average delivered price at New York. ($U.S.)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Newsprint	134.00	134.00	136.92	140.50	142.00	147.00	152.00	158.00	164.58	175.00	210.0

Bleached Kraft (Softwood) in U.S. Market ($U.S.)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Bleached Kraft	150.00	150.00	150.00	147.50	147.50	147.50	161.50	163.00	163.00	197.25	306.25

Source: Pulp, Fiber & Raw Materials Group, American Paper Institute.
Canadian Pulp and Paper Institute.

CANADIAN PACIFIC INVESTMENTS LIMITED

BOARD OF DIRECTORS

ARBUCKLE, W.A.	Chairman of the Company	Celanese Canada Limited
BURBIDGE, F.S.	President	Canadian Pacific Limited
BURNET, F.E.	Chairman and Chief Executive Officer	Cominco Ltd.
CAMPBELL, A.M.	Chairman	Sun Life Assurance Company of Canada
PARE, PAUL L.	President and Chief Executive Officer	Imasco Limited
SINCLAIR, IAN D.	Chairman and Chief Executive Officer	Canadian Pacific Limited
MOODIE, W.	President	Canadian Pacific Investments Limited
NIXON, S.E.	Corporate Director and Financial Consultant	
PICKARD, H.M.	Chairman and Chief Executive Officer	Marathon Realty Company Limited
SOUTHERN, R.D.	President and Chief Executive Officer	ATCO Industries Limited
STENASON, W.J.	Executive Vice President	Canadian Pacific Investments Limited

CANADIAN PACIFIC LIMITED

BOARD OF DIRECTORS

ARBUCKLE, V.A.	Chairman of the Cdn. Board	The Standard Life Assurance Company
BENNETT, W.J.	President	Iron Ore Company of Canada
BURBIDGE, F.S.	President	Canadian Pacific Limited
CAMPBELL, KEITH	Vice President	Canadian Pacific Limited
FINDLAY, ALLAN	Partner	Law Firm of Tilley, Carson & Findlay
HART, G.A., M.B.E.	Chairman of the Executive Committee	Bank of Montreal
JISKOOT, ALLARD	Chairman of the Board and Managing Director	Pierson, Heldring & Pierson N.V.
KINNEAR, DAVID	Director	Eaton's of Canada Limited
LANG, H.J.	Chairman and Chief Executive Officer	Canron Limited
MATTHEWS, DONALD C.	President and General Manager	Highland Stock Farms Limited
McLAUGHLIN, W. EARLE	Chairman and President	The Royal Bank of Canada
MOORE, J.H.	President	Brascan Limited
PARE, PAUL L.	President and Chief Executive Officer	Imasco Limited
POLWARTH, LORD D.L.	Director	Bank of Scotland
PRATTE, CLAUDE	Advocate	
ROLLAND, LUCIEN G.	President and General Manager	Rolland Paper Company Limited
RUNCIMAN, A.M.	President	United Grain Growers Limited
SHERMAN, F.H.	President and Chief Executive Officer	Dominion Foundries and Steel, Limited
SINCLAIR, IAN D.	Chairman and Chief Executive Officer	Canadian Pacific Ltd.

CANADIAN PACIFIC LIMITED

BOARD OF DIRECTORS
(Continued)

TIMMIS, DENIS W.	President and Chief Executive Officer	MacMillan Bloedel Limited
WHITE, KENNETH A.	President and Chief Executive Officer	The Royal Trust Company
WHITMORE, NORMAN E.	President	Wascana Investments Limited
WINGATE, HENRY S.	Director and Chairman of the Advisory Committee	The International Nickel Company of Canada, Limited
WOLFE, RAY D.	Chairman and Chief Executive Officer	The Oshawa Group Limited

PANCANADIAN PETROLEUM LIMITED

BOARD OF DIRECTORS

BAILEY, ALEX G.	Director	Conventures Limited
CAMPBELL, ROBERT W.	Chairman of the Board and Chief Executive Officer	PanCanadian Petroleum
COHEN, ALBERT D.	President	General Distributors of Canada Ltd.
FINLAYSON, J.K.	Deputy Chairman and Executive Vice President	The Royal Bank of Canada
MARTIN, HUGH A.	President	Western Construction & Engineering Research Ltd.
PICKARD, H.M.	Chairman and Chief Executive Officer	Marathon Realty Company Limited
ROSS, JOHN C.	President	Milk River Cattle Company Limited
SINCLAIR, IAN D.	Chairman and Chief Executive Officer	Canadian Pacific Limited
STENASON, W.J.	Executive Vice President	Canadian Pacific Investments Limited
TAYLOR, J.M.	President	PanCanadian Petroleum Limited

PACIFIC LOGGING COMPANY LIMITED

BOARD OF DIRECTORS

AYERS, M.J.	Secretary	Pacific Logging Company Limited
LANGLEY, G. BAIN	Vice President	The Royal Bank of Canada
SINCLAIR, IAN D.	Chairman and Chief Executive Officer	Canadian Pacific Limited
SLOAN, W.M.	President	Pacific Logging Company Limited
SMITH, L.R.	Senior Regional Vice President	Canadian Pacific Limited
STENASON, W.J.	Executive Vice President	Canadian Pacific Investments Limited
WALTERS, W.	General Manager	Pacific Logging Company Limited

CP HOTELS

BOARD OF DIRECTORS

CURTIS, DONALD W.	Chairman and President	Canadian Pacific Hotels Limited
JUSSAUME, ROBERT	Director, President and Chief Executive Officer	Trust General du Canada
MAURO, ARTHUR	President	Transair Limited
MOODIE, WILLIAM	President	Canadian Pacific Investments Limited
MUNCASTER, J.D.	President	Canadian Tire Corporation Ltd.
RENWICK, H.B.	Vice President, Marketing and Sales	Canadian Pacific Airlines, Limited
STENASON, W.J.	Executive Vice President	Canadian Pacific Investments Limited

COMINCO LIMITED

BOARD OF DIRECTORS
(As at Dec. 31, 1974)

*BENNETT, W.J.	President	Iron Ore Company of Canada Limited
BENTALL, H.C.	Chairman and Chief Executive Officer	The Dominion Construction Company Ltd.
*BURBIDGE, F.S.	President	Canadian Pacific Limited
*BURNET, F.E.	Chairman and Chief Executive Officer	Cominco Limited
*FARGEY, H.T.	Executive Vice President Administration and Marketing	Cominco Limited
*HOBBS, G.H.D.	President	Cominco Limited
MacKIMMIE, R.A.	Partner	Law firm of MacKimmie Matthews
*McMASTER, D.R.	Partner	Law firm of McMaster, Meighen, Minnon, Patch, Cordeau, Hyndman & Legge
PICKARD, H.M.	Chairman and Chief Executive Officer	Canadian Pacific Limited
NIXON, S.E.	Corporate Director and Financial Consultant	
MOODIE, W.	President	Canadian Pacific Investments Limited
SINCLAIR, IAN D.	Chairman and Chief Executive Officer	Canadian Pacific Limited
SINCLAIR, JAMES	Chairman	Lafarge Canada Ltd.
STENASON, W.J.	Executive Vice President	Canadian Pacific Investments Limited

* - Members of Executive Committee

MARATHON REALTY COMPANY LIMITED

BOARD OF DIRECTORS

ARMSTRONG, R.D.	President and Chief Executive Officer	Rio Algom Limited
BURBIDGE, F.S.	President	Canadian Pacific Limited
EAGLES, F.E.	President	Marathon Realty Company Limited
FIELD, M.J.	Vice President - Development	Marathon Realty Company Limited
LAVOIE, R.	President and Chief Executive Officer	Credit Foncier Franco-Canadien
MAITLAND, J.D.	Chairman	Hastings West Investments Limited
MOODIE, W.	President	Canadian Pacific Investments Limited
PICKARD, H.M.	Chairman and Chief Executive Officer	Marathon Realty Company Limited
SINCLAIR, IAN D.	Chairman and Chief Executive Officer	Canadian Pacific Limited

FORDING COAL LIMITED

AND

CANPAC MINERALS LIMITED

BOARD OF DIRECTORS

ANDERSON, M.N.	Chairman and President and Chief Executive Officer	Fording Coal Limited
CAMPBELL, R.W.	Chairman and Chief Executive Officer	PanCanadian Petroleum Limited
SALTER, J.H.	Executive Vice President and Chief Operating Officer	Cominco Limited
RIOPEL, L.M.	Manager - Development Planning	Canadian Pacific Investments Limited
MORRISH, J.H.	Vice President - Marketing and Sales	Canadian Pacific Limited
HENSON, P.	Manager - Special Projects	Cominco Limited

THE GREAT LAKES PAPER COMPANY LIMITED

BOARD OF DIRECTORS
(As at Dec. 31, 1974)

BOWLES, C.R.	Treasurer and Comptroller	The Great Lakes Paper Company
CAMPBELL, KEITH	Vice President	Canadian Pacific Limited
*CARTER, C.J.	President	The Great Lakes Paper Company
*FOX, PERCY M.	Chairman of the Board	The Great Lakes Paper Company
JEFFERY, C.J.	Executive Vice President	The Great Lakes Paper Company
*MAIER, IRWIN	Chairman	The Journal Company
McDOWELL, C. BLAKE	Director	Knight-Ridder Newspapers, Inc.
*MEECH, R.G.	Barrister and Solicitor	
RIDDER, B.H., JR.	Vice-Chairman	Knight-Ridder Newspapers, Inc.
SEELEY, MURRAY D.	Executive Vice President	The Great Lakes Paper Company
*SINCLAIR, IAN D.	Chairman and Chief Executive Officer	Canadian Pacific Limited
STENASON, W.J.	Executive Vice President	Canadian Pacific Investments Limited
STRONG, G. GORDON	Chairman of the Board	Thomson Newspapers, Inc.

* - Members of the Executive Committee

THE ALGOMA STEEL CORPORATION LIMITED

BOARD OF DIRECTORS
(As of Dec. 31, 1974)

*BARBER, JOHN B.	Vice Chairman and Senior Vice President	The Algoma Steel Corporation, Limited
*BARRINGTON, JOHN D.	Mining Consultant and Company Director	
CAMPBELL, KEITH	Vice President	Canadian Pacific Limited
*DUNN, ROSS	Partner	Law firm of McMillan, Binch
*HOLBROOK, D.S.	Chairman and President	The Algoma Steel Corporation, Limited
JOYCE, DOUGLAS	Senior Vice President	The Algoma Steel Corporation, Limited
McLAUGHLIN, W. EARLE	Chairman and President	The Royal Bank of Canada
McMURRAY, MACKENZIE	Chairman	Dominion Bridge Company, Limited
*MEIGHEN, M.C.G.	Chairman	Canadian General Investments Limited
NEPVEU, PAUL A.	Vice President - Finance and Accounting	Canadian Pacific Limited
RATHGEB, CHARLES I.	Chairman and Chief Executive Officer	Comstock International Ltd.
SAVOIE, LEONARD N.	President and Chief Executive Officer	Algoma Central Railway
*STENASON, W.J.	Executive Vice President	Canadian Pacific Investments Limited
*WAGNER, DR. G.	North American Representative	Mannesmann A.G.
Honorary Directors		
CRERAR, HON. T.A.	Retired Senator	
McMILLAN, E.G.	Partner	Law firm of McMillan, Binch

* - Members of Executive Committee

CANPAC LEASING LIMITED

BOARD OF DIRECTORS

STENASON, W.J.	Executive Vice President	Canadian Pacific Investments Limited
NEPVEU, PAUL A.	Vice President - Finance	Canadian Pacific Limited
HUNKIN, R.G.	President	CanPac Leasing Limited
SLATER, H.A.	Director - Corporate Financing	Canadian Pacific Limited
RILEY, R.T.	Vice President - Transport and Telecommunications	Canadian Pacific Limited
JOPLIN, A.F.	Vice President - Operations and Maintenance	Canadian Pacific Limited
BISTRISKY, M.S.	Assistant General Solicitor	Canadian Pacific Limited

CROSS DIRECTORS OF CP, CPI AND SUBSIDIARIES

	CPI	CP	PanCanadian	Pacific Logging	CP Hotels	Cominco	Marathon Realty	Fording Coal	CanPac Minerals	Great Lakes Paper	Algoma Steel	CanPac Leasing
ANDERSON, M.N.								X	X			
ARBUCKLE, W.A.	X	X										
ARMSTRONG, R.D.							X					
AYERS, M.J.				X								
BAILEY, ALEX G.			X									
BARBER, JOHN B.											X	
BARRINGTON, JOHN D.						X					X	
BENNETT, W.J.					X	X						
BENTALL, H.C.												X
BISTRISKY, M.S.										X		
BOWLES, C.R.						X	X					
BURBIDGE, F.S.	X	X				X						
BURNET, F.E.	X											
CAMPBELL, A.M.	X											
CAMPBELL, KEITH		X								X	X	
CAMPBELL, ROBERT W.			X					X	X			
CARTER, C.J.										X		
COHEN, ALBERT D.			X									
CRERAR, HON. T.A.											X	
CURTIS, D.W.					X							
DUNN, ROSS, Q.C.							X				X	
EAGLES, S.E.						X						
FARGEY, H.T.							X					
FIELD, M.J.												
FINDLAY, ALLAN		X										
FINLAYSON, J.K.			X									
FOX, PERCY M.										X		
HART, G. ARNOLD		X										
HENSON, P.								X	X			
HOBBS, G.H.D.						X						
HOLBROOK, DAVID S.											X	
HUNKIN, R.G.												X
JEFFERY, C.J.										X		
JISKOOT, ALLARD		X										
JOPLIN, A.F.												X
JOYCE, DOUGLAS											X	
JUSSAUME, ROBERT					X							
KINNEAR, DAVID		X										
LANG, H.J.		X										
LANGLEY, G. BAIN				X								
LAVOIE, R.							X					
MAIER, IRWIN										X		
MAITLAND, J.D.							X					
MARTIN, HUGH A.			X									
MATTHEWS, DONALD C.		X										

	CPI	CP	PanCanadian	Pacific Logging	CP Hotels	Cominco	Marathon Realty	Fording Coal	CanPac Minerals	Great Lakes Paper	Algoma Steel	CanPac Leasing
MAURO, ARTHUR					X							
McDOWELL, C. BLAKE										X		
McLAUGHLIN, W. EARLE		X									X	
McMASTER, D.R., Q.C.						X						
McMILLAN, E. GORDON											X	
McMURRAY, MACKENZIE											X	
MacKIMMIE, R.A.						X						
MEECH, R.G.										X		
MEIGHEN, M.C.G.											X	
MOODIE, W.	X				X	X	X					
MOORE, J.H.		X										
MORRISH, J.H.								X	X			
MUNCASTER, J.D.					X							
NEVEU, PAUL A.											X	X
NIXON, S.E.	X					X						
PARE, PAUL L.	X	X										
PICKARD, H.M.	X		X			X	X					
POLWARTH, LORD D.L.		X										
PRATTE, CLAUDE		X										
RATHGEB, CHARLES I.											X	
RENWICK, H.B.					X							
RIDDER, B.H., JR.										X		
RILEY, R.T.												
RIOPEL, L.M.								X	X			
ROLLAND, LUCIEN G.		X										
ROSS, J.C.			X									
RUNCIMAN, A.M.		X										
SALTER, J.H.								X	X			
SAVOIE, LEONARD N.											X	
SEELEY, MURRAY D.										X		
SHERMAN, F.H.		X										
SINCLAIR, IAN D.	X	X	X	X		X	X			X		
SINCLAIR, HON. JAMES						X						X
SLATER, H.A.												
SLOAN, W.M.				X								
SMITH, L.R.				X								
SOUTHERN, R.D.	X											
STENASON, W.J.	X		X	X	X	X				X	X	X
STRONG, GORDON G.										X		
TAYLOR, J.M.			X									
TIMMINS, DENIS W.		X										
WAGNER, DR. G.											X	
WALTERS, W.				X								
WHITE, KENNETH A.		X										
WHITMORE, NORMAN E.		X										
WINGATE, HENRY S.		X										
WOLFE, RAY D.		X										

Appendix G
Cominco's Subsidiaries and Interests